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America's recession may not be as severe as many fear, but the recovery could take longer—and that is dangerous: leader

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Politics this week

Apr 10th 2008
From The Economist print edition

General **David Petraeus**, the commander of American forces in Iraq, and **Ryan Crocker**, America's ambassador in Baghdad, provided Congress with an update on the progress of the war. Both men emphasised the achievements in reducing violence, but General Petraeus said that the gains were “fragile and reversible”. He recommended that troop levels be maintained at around 140,000 once the withdrawal of 30,000 troops sent to Iraq in a “surge” operation is completed in July. See article

In a renewed flare-up of violence, at least 73 people died in Sadr City, in eastern **Baghdad**, as American and Iraqi troops continued to fight Shia militias; 15 Americans were killed in the same period.

Hillary Clinton, John McCain and Barack Obama all got their chance to question General Petraeus in Senate committee hearings. The event was a welcome distraction for Mrs Clinton in particular, who earlier sacked her chief campaign strategist, **Mark Penn**, for talking privately to Colombian officials about a free-trade deal that she opposes. Mr Penn has also come in for much criticism for his handling of Mrs Clinton's presidential bid.

Seizing the moment, George Bush decided to send the Colombian **free-trade pact** to Congress for approval. Colombia and the United States signed the agreement in November 2006; with the Democrats opposed, its passage is far from certain. See article

Michael Bloomberg's proposal for a **congestion charge in Manhattan** collapsed when the Democrats decided not to support it. New York's mayor wanted drivers to pay $8 to enter a busy zone in Manhattan as part of an effort to ease congestion and reduce the city's emissions, but the plan was opposed by politicians in New York's other boroughs.

Authorities in Texas carried out a raid on the ranch of a **polygamist** religious sect 160 miles north-west of San Antonio after reports of child abuse and forced marriages. More than 400 children and 130 women were removed and the premises searched. See article

Liberty, equality. Fraternity?

Kosovo moved its recently declared independence forward when its parliament adopted a new constitution. The document protects the rights of Kosovo's minorities, including Serbs. Serbia called the charter an illegal act.

Vandals desecrated 148 **Muslim graves** at a French cemetery for soldiers who fought in the first world war. Some 78,000 men from French colonies died in the war, many from Algeria and Tunisia. Neo-Nazis daubed swastikas on Muslim graves at the site last year.

A new Olympic sport

Getty Images

London, Paris and San Francisco saw protests against the **Beijing Olympic Torch Relay** by pro-Tibetan demonstrators. In London 37 people were arrested, the flame had to be extinguished in Paris, and San Francisco changed the route of its ceremony. China resisted calls to curtail the global relay and to rethink plans to send the torch through Tibet itself. See article

A suicide-bomb attack at the start of a marathon race in **Sri Lanka** killed 14 people, including the highways minister and some of the country's star athletes. The attack, blamed on the Tamil Tigers, also injured more than 90 people.

The ruling junta in **Myanmar** announced that a referendum on a draft new

constitution would be held on May 10th. It published the draft for the first time, confirming expectations that it will entrench military rule despite allowing limited multiparty elections in 2010. See article

Fifty-four **Burmese migrants** died after suffocating in a lorry smuggling them into Thailand. They had been packed into an airtight container for the journey.

Ahead of elections on April 10th, **Nepal** was scarred by violence. In one of the most serious incidents, seven Maoist activists were shot dead by security forces. See article

Hunger pains

In **Haiti**, a hungry mob tried to storm the presidential palace in the capital, Port-au-Prince, in continuing protests over soaring food prices. UN troops fired rubber bullets and tear gas to disperse them.

France called off a humanitarian mission to **Colombia** to secure the release of Ingrid Betancourt, a French-Colombian politician, after the FARC rebels who are holding her hostage said they would not allow the delivery of emergency medical aid.

Ecuador's top four military commanders resigned after President Rafael Correa accused the army of aiding the United States in operations against the FARC. The resignations came hours after Ecuador's defence minister stepped down without explanation.

Four members of an army death squad in **Peru** were convicted of the murder in 1992 of nine students and a professor suspected of links with Maoist rebels. The verdict is likely to affect the trial of Alberto Fujimori, a former president, who is accused of authorising the death squad.

Presidential ambition

Twelve days after **Zimbabwe's** presidential election, results had yet to be officially declared, though most independent analysts presumed that President Robert Mugabe had lost to Morgan Tsvangirai and that the incumbent's hardline supporters were trying to enforce a run-off. After regional leaders failed to persuade Mr Mugabe to step down, Zambia called an emergency meeting of the Southern African Development Community, which it chairs. See article

Violence erupted in **Kenya** again after talks broke down between President Mwai Kibaki and the opposition leader, Raila Odinga, over the distribution of ministries in a power-sharing government. Mr Odinga had rejected the results of an election in December that most observers thought was rigged in favour of the incumbent, Mr Kibaki. See article

Tension between **Israel** and the **Palestinian** authorities in the Gaza Strip rose after two Palestinian militants attacked the Nahal Oz border crossing, where fuel is carried from Israel into the strip, killing two Israelis. Two Palestinian fighters and at least two Palestinian civilians were killed by Israeli counter-strikes.

India hosted the first **India**-**Africa** summit, with 14 African leaders attending. The event reflected India's growing commercial interest in Africa; it was also deemed an attempt to counter the growing influence of China in the continent. See article

Reuters

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Business this week

Apr 10th 2008
From The Economist print edition

Masaaki Shirakawa was approved as the **Bank of Japan's** new governor. A stand-off between the country's government and opposition had left the position vacant since Toshihiko Fukui's retirement on March 19th. However, the opposition still blocked the nomination of Hiroshi Watanabe as one of his deputies. In its monthly report the bank gave warning that the rising costs of energy and raw materials, coupled with the global credit crisis, would cause Japan's economy to slow.

The dates for the test flight and first delivery of Boeing's 787 **Dreamliner** passenger jet were pushed back by around six months, the third such delay to the programme because of production mishaps. The first delivery is now due in the third quarter of 2009.

Something compelling

American Airlines cancelled thousands of flights over several days to carry out **safety inspections**, causing further disruption to passengers. Airlines in the United States are bound to comply with a schedule of government inspections. Last month the Federal Aviation Administration said it was considering fining Southwest Airlines $10.2m for flying 46 jets that had missed their allotted check-up times.

Novartis struck a deal that will eventually give it control of **Alcon**, the world's biggest eye-care company. In an all-Swiss transaction Novartis, a drug company, is paying **Nestlé**, Alcon's owner, $11 billion for a 25% stake with an option to buy Nestlé's remaining 52% holding for $28 billion at a later date. See article

Washington Mutual boosted its capital position by raising $7 billion in a sale of new shares to investors led by **TPG**, a private-equity firm. America's sixth-biggest bank, which has its headquarters in Seattle and is one of the country's leading mortgage lenders, is reining in its home-financing operations and shedding 3,000 employees. See article

It was a busy week for TPG. The firm also agreed to take a 50% stake in **SIA International**, a Russian drugs-distribution firm, for $800m, the biggest-ever private-equity investment in Russia.

A court ruled that Britain's **Serious Fraud Office** had acted unlawfully when it dropped an investigation into alleged bribery in an arms deal involving BAE Systems and Saudi Arabia. The SFO's decision in December 2006 to end its inquiries is widely believed to be the result of political pressure.

Getting tough

After **Microsoft** threatened to make a hostile bid for **Yahoo!** if the company didn't accept its friendly offer, markets pondered reports that the internet-search engine was about to team up with AOL, and that News Corp would join Microsoft's bid.

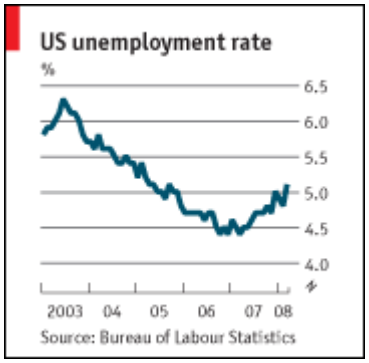
Lachlan Murdoch's attempt to buy out Australia's Consolidated Media Holdings collapsed after disagreements about a price for the deal could not be resolved.

Hearings began in Germany's biggest shareholder lawsuit. Some 16,000 people are suing **Deutsche Telekom** for allegedly overvaluing assets in a share issue in 2000. The value of the shares has since fallen by around 80% and the suit seeks *euro*80m ($125m) in damages. Deutsche Telekom settled a similar case in America in 2005, which would have gone before a jury. The dispute in Germany will be decided by a judge. See article

Party like it's 1992

Fears about **negative equity** returned to haunt British homeowners, with one index reporting that house prices fell by 2.5% in March compared with February, the sharpest such decline for 16 years. See article

There was another drop in America's non-farm payrolls. Around 80,000 **jobs** were eliminated in March compared with the previous month. The unemployment rate rose to 5.1%. See article



Eurotunnel reported its first annual profit since it was formed in 1986. Last year the operator of the tunnel linking Britain and France, which opened in 1994, rejigged its business, changed its official name to Groupe Eurotunnel, and restructured its massive debt over the opposition of some bondholders. It made a profit in 2007 of *euro*1m ($1.6m).

China's currency traded below seven **yuan** to the **dollar** for the first time since 1994. China's central bank controls the market for the currency. It abandoned a peg against the greenback in 2005 and has allowed the yuan to appreciate rapidly over the past few months as part of a government effort to dampen rising inflation. Hank Paulson, America's treasury secretary, recently visited Beijing where he welcomed the currency's appreciation and said he hoped it would continue.

China signed its first free-trade agreement with a developed country: **New Zealand**.

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KAL's cartoon

Apr 10th 2008
From The Economist print edition

Illustration by Kevin Kallaugher

MAKING PROGRESS IN IRAQ TODAY IS LIKE:
DODGING BULLETS...
AND THIS IS A MARKED IMPROVEMENT FROM LIFE PREVIOUS
WITH NO END IN SIGHT
IN A CROSSFIRE
DURING AN EARTH-QUAKE
WHILE NAVIGATING A MINE FIELD
WHEN WALKING ON EGGS
EXPLOSIVE
WHICH ARE REALLY GRENADES

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The world economy

The great American slowdown

Apr 10th 2008
From The Economist print edition

The recession may not be as severe as many fear, but the recovery could take longer—and that is dangerous

Get article background

AMERICANS are unaccustomed to recessions, particularly ones that involve shopping less. During the past quarter-century, the world's most powerful economy has suffered only two official downturns, in 1990-91 and 2001. Both were short and shallow. In 2001 consumer spending barely skipped a beat; a decade earlier it fell, but only briefly. Buoyed by rising asset prices and financial innovations that allowed ever more people to tap ever more debt, the collective American wallet has not snapped shut in almost two decades.

That may be about to change. Evidence is mounting that the economy has slipped into recession—and this time consumer weakness is to the fore (see article). The doughty American shopper is being pummelled by four things: the housing bust, the credit crunch, higher fuel and food costs and, most recently, a weakening labour market. The unemployment rate rose to 5.1% in March, while the private sector lost jobs for the fourth month in a row. Feeling poorer and with fewer people prepared to lend them money, consumers are cutting back: witness the slump in car sales. And seeing that consumer spending accounts for 70% of American demand, that hurts, especially when it is coupled with a collapse in the once mighty construction industry. The IMF now officially predicts an American recession in 2008; many at the Federal Reserve think output is contracting.

Shallow but lengthy: you could do a lot worse

There are two big questions about this downturn for America and the world: how long? And how deep? On the second count, there is room for guarded optimism: although American recessions have usually sent the world economy into a funk, this time the slowdown need not be so severe—especially for the emerging world. The economic tests instead may come from the length of this downturn: an America that stays sluggish for several years could cause all sorts of problems.

That is not to imply that a severe global slowdown is out of the question. The IMF reckons that there is a 25% chance of the world economy growing by less than 3% in 2008 and 2009, the equivalent of recession, in its view. The origins of this crisis lie in the biggest asset bubble in history; financial markets have already suffered arguably their biggest shock for 80 years; and America is not the only developed economy suffering (Britain's housing market, for instance, is showing the same symptoms as America's—see article). But so far at least there is little evidence that the world economy is falling off a cliff.

The pace of job losses in America has been mild compared with previous downturns, and there are a couple of reasons to suppose it will stay that way. The first is the activism of American policymakers. Congress started throwing money at the problem early, and a second fiscal stimulus is already being discussed (alongside a bail-out for the housing market). The Fed has slashed interest rates, promised more cuts if the economy stays weak and—perhaps most important—sharply reduced the odds of financial-market catastrophe by extending its safety net to investment banks.

The second is the changing structure of the world economy. The dynamism and resilience of emerging markets mean that America does not matter as much as it once did. The IMF expects global growth to fall from 4.9% in 2007 to 3.7% this year—hardly catastrophic. Moreover, these foreigners can now do a bit to cushion the blow for Americans: already global demand, coupled with a weak dollar, is boosting American exports. Meanwhile, some losses from America's housing bust have been borne abroad, although not without pain.

With these props, America can avoid a deep slump, but don't expect a vigorous recovery. Spending will be supported by tax rebates in the second half of the year, but the hangover from the housing bust will linger much longer. Judging by the experience of other rich countries that have suffered financial crises spawned by housing busts, such as Sweden and Norway in the early 1990s, weak balance sheets will weigh on consumers' spending for years rather than months. The 2008 recession may be mild, but the 2009 recovery will be feeble.

Beware the slithering snail

If the world economy's biggest problem turns out to be America remaining snail-like for longer than most people expect, many will breathe a sigh of relief. Given the scale of the financial mess, it could be a lot worse. You can even argue that after five years of breakneck growth, a more sedate global expansion would be no bad thing: it would dampen inflationary pressures in the emerging world, and weaker domestic demand should shrink America's gaping external deficit—already down from above 6% of GDP to below 5%.

But that is about as far as optimism can take you. The main fear is that the rest of the world proves less resilient than now seems likely: commodity exporters, say, may rely on American demand less than they did, but are hardly cut off from it. The weak dollar also causes problems. Importing America's loose monetary policy will become harder to sustain for countries, such as the Gulf states, that peg their currencies to the greenback. They will need to let their exchange rates rise.

Politics too can do plenty of damage. A sluggish America next year will be a hard inheritance for the next president. With the budget deficit rising, big domestic reforms, such as expanding health-care coverage, will become more difficult; with a fragile economy, the Democrats, if they get in, may have to rethink their plan to roll back George Bush's tax cuts.

And do not forget populism and protectionism. Already eight out of ten Americans say their country is on the wrong track. A protracted malaise will spawn an angry search for scapegoats. Even though free trade is helping save Americans from a worse downturn, Mr Bush is struggling to get a trade deal with Colombia through Congress (see article): heaven help the Doha round. Meanwhile, the momentum to re-regulate financial markets and punish the oil industry, credit-card firms or indeed any other malefactors of great wealth will grow. The great American slowdown may be less calamitous than many people fear; but it is fraught with dangers.

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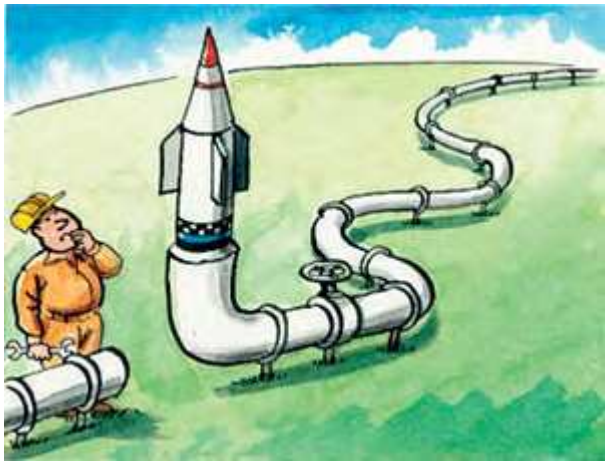
European security and Russia

Think pipes not rockets

Apr 10th 2008
From The Economist print edition

The European Union should worry about gas, not just missile defences

Illustration by David Simonds



BELIEVE the spin, and America and its European allies are doing a great job in bolstering the future security of a Europe whole and free. The NATO summit in Bucharest gave an (undated) promise of future membership to Ukraine and Georgia and endorsed America's plans for a limited missile-defence system in Poland and the Czech Republic.

Reality is rather different. George Bush's efforts to burnish his presidential legacy led to a venomous row. Some NATO members in old Europe thought they were being railroaded by America into hasty expansion (see article). Some in eastern Europe worried that a Russia-friendly camp centred on Germany was taking shape inside the alliance. Meanwhile, the chirpy tone of a later meeting in Sochi between Mr Bush and Vladimir Putin belied a lack of substance.

Help for those who help themselves

But the real worry for Europe is a different one. It gets a quarter of its gas from Russia and the proportion is set to rise sharply. The Kremlin uses its monopoly of east-west gas pipelines, and offers of lucrative bilateral gas deals, to interfere in Europe's energy business. It relies on friends like Germany to block efforts to liberalise European markets and diversify supply.

Russia is also pushing ahead with South Stream, a $15 billion pipeline to bring gas across the Black Sea to central Europe via the Balkans. Three European Union members, Bulgaria, Hungary and Italy, have signed up, and Austria is interested. This weakens the chances of an EU-backed alternative, Nabucco, already stymied by lack of gas, partly because of Russia's Caspian arm-twisting and also because politics precludes using supplies from Iran.

The energy-security outlook is bleak, but the EU could help itself in three ways. First, by pushing harder for new pipelines that weaken Russia's grip on gas from the east. Efforts to revive Nabucco should continue. But political support should also be garnered for White Stream, an ingenious smaller-bore pipeline that aims to bring Caspian gas across the Black Sea to Europe, bypassing awkward Turkey. Serious talks on that would concentrate minds on Russia's troubling monopoly. The West also already has access to twin oil and gas pipelines from the Caspian to Turkey.

Second, the EU needs to drive a harder bargain with Russia on the gas it does buy. Its population is more than three times Russia's; it is 13 times richer by GDP. And it is after all in Russia's interest too to make

sure that Central Asia's gas is sold to Europe (ie, mostly via Russia) not directly to China. Europe is also the most plausible market for the big new gas field Russia plans to develop in the Arctic. Its ill-run, debt-soaked gas industry needs Western expertise and cash to modernise.

But Europe also needs to insist on more liberalisation and transparency in the gas industry. A deep and liquid market would make it harder for the Kremlin to manipulate supply. Gazprom—the trading name of the gas division of Kremlin, Inc—should be able to invest in Europe only if it obeys the rules. The EU should treat Gazprom with the same toughness that it has shown towards Microsoft, obliging it to publish details of its contracts and open the books of shadowy intermediary companies such as RosUkrEnergo. These often seem to exist solely to siphon off export revenues, for the benefit of hidden owners. And Gazprom needs to separate its transmission, distribution and storage assets to allow full third-party access—as the EU should have forced its own companies to do.

The intricate economics of the gas business may seem less exciting than the Star Wars technology of missile defence. But for Europe's unity and security, they matter more.

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China and Myanmar

Keeping the flame alight

Apr 10th 2008
From The Economist print edition

Two ways to repair China's image: end the torch relay and take a lead over Myanmar

Getty Images

Get article background

WERE shooting oneself in the foot an Olympic event, China would surely be well placed for a gold. The Beijing 2008 Olympic Torch Relay, taking the flame around the world before the games begin in August, was always a risk. Of course the flame would draw protesters like moths. But the suppression of riots and protests in Tibet has ensured the torch's progress has graduated from minor diplomatic embarrassment to full-scale public-relations disaster (see article).

An exercise intended to flaunt the new, outward-looking and confident China has displayed its dark side: nervous, repressive, prickly and stubborn. That stubbornness may rule out the obvious remedy: calling the whole farce off before someone is badly hurt. At least the International Olympic Committee should have nothing more to do with it. Protests this week in London, Paris and San Francisco were ill-tempered enough. The passage through Delhi on April 17th could be uglier. India is home to some 100,000 Tibetans. The only stop on the torch's world tour sure to be trouble-free is Pyongyang. As for its proposed procession through Tibet in June, it is hard to imagine a more provocative or insensitive gesture.

To accuse China's critics of “politicising” a sporting event is nonsense. What has the relay to do with sport? It is not some timeworn practice integral to the games. Rather, the idea of a relay from Greece to the Olympic venue was revived by the Nazis for the 1936 Berlin Olympics, which is hardly a precedent China wants to advertise. The first “global” relay only took place for the most recent Olympics, in Athens in 2004. But that was not such a circus. China's pride may preclude any concession, however face-saving, on Tibet, or on human-rights abuses in general. But it is also facing criticism for its foreign policy—its links with the governments of Sudan and Myanmar in particular. Here, in theory, it can do something to show that it is indeed a responsible international “stakeholder”, with diplomatic maturity as well as economic clout.

Take Myanmar. After the bloody quelling of the “saffron revolution” last September, the ruling junta threw a few sops to international opinion. It accepted visits from a United Nations envoy, opened talks with the detained opposition leader, Aung San Suu Kyi, and gave a timetable for a political transition. China deserves some credit for forcing the junta's hand. Myanmar's generals are nobody's puppets. But China, with its big commercial interests in the country, and its support in the UN Security Council, is now the junta's best friend.

It is time to use that position again. Confident that the outside world's focus on their misdeeds has

shifted elsewhere, the generals have stalled on dialogue both with their opponents at home and the UN's envoy. The plight of their country remains desperate (see article). The political “process” has degenerated into a drive to impose a constitution entrenching military rule. A referendum on this solution will be held on May 10th in a climate of vicious intimidation.

Members of the Security Council are mulling a new statement, calling for some of the minimum reforms needed for a credible vote—such as the release of opposition leaders, including Miss Suu Kyi. The first thing China can do is to allow the statement to be issued in the name of a united outside world. More than that, China could help resolve the sterile debate that has raged for two decades over “engagement” or “isolation”. Isolation has never worked, because China, India and South-East Asian countries see too much commercial and strategic benefit in links with the junta. But nor has “engagement”, since Western countries have imposed sanctions of varying severity, and the junta has little interest in engaging anyway.

Nobody wins gold for sitting on a fence

Despite this, there is a broad consensus about the need for reform in Myanmar. With anti-Chinese feeling mounting in Myanmar, it is not in China's interests to be perceived as the prop that always holds up a loathed regime. It could take the initiative in forming a contact group to engage the junta in talks on economic co-operation and political reform. Even if it excluded Europe and America, such a group, of China, India, some South-East Asian countries and Japan, could help show the generals that they cannot forever survive in the cracks of other countries' disagreements. And it could help show that China is not always, unequivocally, on the side of the thugs.

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Indian financial reform

Why Mr Rajan is right

Apr 10th 2008
From The Economist print edition

India's financial system prizes stability over vigour. It achieves neither

Reuters

Get article background

IN INDIA, financial instruments were once things of beauty. People who had no access to banks, or no faith in them, invested their savings in gold necklaces, earrings or waist-chains instead. Now India's prosperous classes favour semi-precious stones for their jewellery and unglittery bank accounts, shares and property for their investments.

This is progress. But some Indian savers might be feeling nostalgic for the shiny investments of the past. The country's wholesale-price inflation rate is at a 40-month high of 7% and its stockmarket has fallen by a quarter from its January peak (see article). The subprime crisis in America and high commodity prices at home have deepened many people's suspicion that financial markets are merely glorified casinos manipulated by speculators. Indeed, the breakdown in markets for many complex securities gives some appeal to an asset that can be made liquid with a crucible and thousand-degree heat.

So this is an inauspicious time to call on India to reform its financial system and shed its suspicion of financial markets. But that has not deterred the committee on financial-sector reform, which was set up by India's government and headed by Raghuram Rajan, a Chicago professor and a former chief economist of the IMF. “Financial sector reform is both a moral and an economic imperative,” argues Mr Rajan. He is right—and he deserves a lot more support than he is likely to get.

As the report makes clear, India is dangerously complacent. Its concerns about over-sophisticated markets resemble a clock that looks right only because it is 12 hours behind. Indian households put only about half of their savings in the bank, and banks funnel less than half of their credit to private firms, says one estimate. The government's financing needs crowd out other borrowers, and state-owned banks account for about 70% of India's financial assets—a share matched only by countries such as Libya, Turkmenistan and China. The cost of these financial failings is probably a percentage point or two of growth. They leave India's savers with too little reward for their thrift, its poorer borrowers with too few alternatives to the moneylender and its incumbent firms with too much protection from upstarts, who cannot raise money to compete.

Procrastination is not prudence

The problem for reformers has always been knowing where to start. For example, India's stunted

corporate-bond market might grow if banks and insurance firms were free to buy more corporate debt and less government paper. But then who would finance the fiscal deficit? Perhaps foreigners could be allowed to buy more sovereign bonds. But the inflow of foreign capital would put upward pressure on the rupee. That, in turn, might push India into allowing domestic insurers and provident funds to invest more freely abroad.

Mr Rajan's solution is to move away from the big ideological questions, where India has debated itself into a corner. Instead of starting another endless argument about whether state banks should be privatised, foreign capital welcomed, and lenders forced to serve small businesses, he advocates a few experiments, such as selling some small, underperforming government banks. If they succeed, they will show the way for others. If they fail, the sky will not fall.

This is worth trying, because if America's subprime crisis demonstrates the pitfalls of untrammelled finance, India illustrates the opposite danger. Since its regulators get blamed only for mishaps, not for lost growth and wasted opportunities, they are too conservative. Small, local banks, for instance, might serve the rural poor well, but regulators are reluctant to license such banks in case they go bust. “New ideas are banned unless explicitly permitted,” the report laments.

This helps regulators feel more secure, but it does little for the system's stability. For example, companies are barred from speculating in derivatives, but many have done so anyway. Those that have lost money now cite the very rules they broke as reason to back out of their obligations, saying they should not pay for mistakes they were not officially allowed to make.

India's democracy responds quickly to acute crises, but allows chronic problems to fester for too long. The country has not suffered a famine since independence (because spectacular distress makes headlines, and relieving it wins votes), but many of its citizens are still chronically underfed. Likewise, India has not run into big financial trouble since a balance-of-payments crisis in 1991. But as Mr Rajan's report makes clear, the country still suffers from financial malnutrition. In the long run that may be more damaging.

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A wireless world

Our nomadic future

Apr 10th 2008
From The Economist print edition

Prepare to see less of your office, more of your family—and still perhaps be unhappy

Illustration by Belle Mellor

SOMETIMES the biggest changes in society are the hardest to spot precisely because they are hiding in plain sight. It could well be that way with wireless communications. Something that people think of as just another technology is beginning to show signs of changing lives, culture, politics, cities, jobs, even marriages dramatically. In particular, it will usher in a new version of a very old idea: nomadism.

Futurology is a dangerous business, and it is true that most of the important arguments about mobile communications at the moment are to do with technology or regulation—bandwidth, spectrum use and so on. Yet it is worth jumping ahead, as our special report does rather adventurously this week, and wondering what the social effects will be, for two reasons. First, the broad technological future is pretty clear: there will be ever faster cellular networks, far more numerous Wi-Fi "hotspots" and many more gadgets to connect to these networks. Second, the social changes are already visible: parents on beaches waving at their children while typing furtively on their BlackBerrys; entrepreneurs discovering they don't need offices after all (if you need to recharge something, you just go to Starbucks); teenagers text-dumping their boyfriends. Everybody is doing more on the move.

Ancient nomads went from place to place—and they had to take a lot of stuff with them (including their livelihoods and families). The emerging class of digital nomads also wander, but they take virtually nothing with them; wherever they go, they can easily reach people and information. And the barriers to entry are falling. You don't have to be rich to be a nomad (wander round any American college campus if you doubt that). It is getting harder to find good excuses for being offline: this week the European Union allowed airlines to offer in-flight mobile-phone service, and several carriers have Wi-Fi. The gadgets, too, are getting ever smaller and more portable.

A century ago some people saw the car merely as a faster horse, yet it led to entirely new cities, with suburbs and sprawl, to new retail cultures (megastores, drive-throughs), new dependencies (oil) and new health threats (sloth, obesity). By the same token, wireless technology is surely not just an easier-to-use phone. The car divided cities into work and home areas; wireless technology may mix them up again, with more people working in suburbs or living in city centres. Traffic patterns are beginning to change again: the rush hours at 9am and 5pm are giving way to more varied "daisy-chain" patterns, with people going backwards and forwards between the office, home and all sorts of other places throughout the day. Already, architects are redesigning offices and universities: more flexible spaces for meeting people, fewer private enclosures for sedentary work.

Don't sweat, don't shower

Will it be a better life? In some ways, yes. Digital nomadism will liberate ever more knowledge workers from the cubicle prisons of Dilbert cartoons. But the old tyranny of place could become a new tyranny of time, as nomads who are “always on” all too often end up—mentally—anywhere but here (wherever here may be). As for friends and family, permanent mobile connectivity could have the same effect as nomadism: it might bring you much closer to family and friends, but it may make it harder to bring in outsiders. It might isolate cliques. Sociologists fret about constant e-mailers and texters losing the everyday connections to casual acquaintances or strangers who may be sitting next to them in the café or on the bus.

As for politics, the tools of nomadism—such as mobile phones that double as cameras—can improve the world. For instance, they turn practically everybody into a potential human-rights activist, ready to take pictures or video of police brutality. But the same tools have a dark side, turning everybody into a fully equipped *paparazzo*. Some fitness clubs have started banning mobile phones near the treadmills and showers lest patrons find themselves pictured, flabby and sweaty, on some website that future Google searches will happily turn up. As in the desert, so in the city: nomadism promises the heaven of new freedom, but it also threatens the hell of constant surveillance by the tribe.

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On Europe's carbon market, finance, food prices, Botswana's Bushmen, politics, Argentina

Apr 10th 2008
From The Economist print edition

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A new market environment

SIR – Charlemagne, like the European Union's summiteers, misses the obvious solution to meeting climate-change goals without deindustrialising Europe's economy: an unfettered market in carbon credits (March 22nd). A carbon market will naturally find and use up cheaper credits in the near term and provide a necessary interval for businesses to raise and invest the capital needed for investment in low-carbon technologies.

The continued exclusion from the EU's emissions-trading system of project credits from reduced deforestation, reforestation and improved agriculture in the developing world cuts off the supply of low-cost credits, which will inevitably be taken up by the international competitors of European industries. The upshot will be not only the “leakage” of carbon-intensive industries with no resulting gain to the atmosphere, but also the continued exclusion of the poorest nations and people from any benefit of the carbon market. Industrial and environmental inefficiency is thus combined with inequity. Only Brussels could achieve such a happy result.

Eric Bettelheim
Executive chairman
Sustainable Forestry Management Limited
Hamilton, Bermuda

SIR – I reject Charlemagne's suggestion that a pre-nuptial agreement dampens romantic ardour. Marrying for money is as old as history. A pre-nup proves that the match is not driven by financial considerations, which means it must be love after all.

Martin Graham
London

Financial cycles

SIR – Many of the points you made in your leader on banking were spot on (“The regulators are coming”, March 29th). However, your claim that “the system is accident-prone, but it rarely makes the same mistake twice” was surely intended as a joke. Given the recent history of America's savings and loans industry, Barings, the dotcom boom and bust, Allied Irish Banks, National Australia Bank, not to mention Société Générale, it is difficult to take any view other than that markets have remarkably short memories.

Humphrey Percy
Chief executive officer
Bank of London and The Middle East (BLME)
London

Feeding themselves

SIR – High food prices benefit only a minority of farmers in the poorest countries (“Food for thought”, March 29th). In Africa, South Asia and Central America most small farmers consume more food than they produce. A majority are net food-buyers who make ends meet by working off-farm, and they suffer along with the urban poor and landless rural folk when food prices rise. Aid agencies would do well not to lose

sight of the bigger picture amid the present food-price frenzy. The root challenge is to improve the low productivity of 1.5 billion small farmers in the developing world. Fixing food aid is merely an important secondary objective.

Christopher Barrett
Professor of agriculture
Cornell University
Ithaca, New York

SIR – You are absolutely correct that it is a mistake to define the main problem of the poor "as massive hunger, and hence the solution as providing food". But the optimum solution to tackle the cause of hunger is to give the poor and hungry that ultimate form of voucher: cash. Except in the rare cases of total market failure (like Darfur and North Korea), cash has huge advantages over food aid.

Cash transfers are more than 50% cheaper to administer. They reduce the risk of dependency and disincentives; allow individual choice between consumption and investment; have multiplier effects on income and employment; stimulate markets by increasing purchasing power; and encourage the use of other social services such as health and education.

That is why it is cash that is predominantly used to help the poorest in OECD countries in the form of pensions, child benefits, disability grants and so on. Why not in developing countries too?

Nicholas Freeland
Regional Hunger and Vulnerability Programme
Johannesburg

Return the Bushmen

SIR – Unless Botswana's new president, Ian Khama, takes decisive action the row over the eviction of the Bushmen from the Central Kalahari Game Reserve will continue to muddy the country's image ("The southern star", March 29th). A recent human-rights report from America's State Department criticised the Botswanan government's "narrow interpretation" of a court ruling on the Bushmen. The report says this has prevented most of those who were forcibly removed from their land from returning.

And despite ministers having shouted themselves hoarse that the evictions had nothing to do with diamonds, the government has now approved a $2.2 billion diamond mine on the Bushmen's land.

Stephen Corry
Director
Survival International
London

Election round-up

SIR – Barack Obama is dismissing the will of Democratic voters in Michigan and Florida, where Hillary Clinton won both primaries, by not wanting to count their delegates on the basis that those states broke the party's rules on election schedules ("Of snipers and sniping", March 29th). Yet his campaign shows little respect for the party's rules on allowing superdelegates to pick whichever candidate they prefer when it argues that if the superdelegates choose Mrs Clinton they will be betraying the will of voters. Mr Obama is pursuing every advantage he can without regard to principle.

Jeff James
Kirkland, Washington

SIR – You found it worthy to note Dick Cheney's terse reply when he was told that two-thirds of Americans are now against the war in Iraq: "So?" (Primary colour, March 29th). I agree that it is strange these days for a politician not to knuckle under and grovel to public opinion, however ephemeral it is, however ill-informed he may think it to be, and however he may disagree with it.

Some would consider it principled when a politician has the guts to try to shape public opinion rather than be shaped by it. We already have too many examples in politics of popularity being confused with leadership. Aiming to be popular may be a good trait for president of the school council, but it is a poor

one for president of the United States.

Ronald Holdaway
Draper, Utah

That would be impressive

SIR – Unfortunately, your leader on Argentina's farmers used an inappropriate term for the hunting tool used by Argentine gauchos ("Killing the pampas's golden calf", March 29th). In Argentina, "a gaucho lassoing himself with his own *bolas*" could be taken to mean that the gaucho lassoed himself with his own testicles. *Boleadoras* would have been much better.

Susan Ahern
Mexico City

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Myanmar

Spring postponed

Apr 10th 2008 | YANGON
From The Economist print edition

EPA

The hopes kindled by the saffron revolution have faded fast

Get article background

AS DUSK shrouds the Sule pagoda in central Yangon, the dazzling neon haloes behind many of the Buddhas' heads flash brighter. Before them the devout, kneeling in their sarongs, murmur prayers, light joss-sticks and touch their foreheads to the marble floor. Outside, traffic roars on the city's busiest roundabout. The shrine, housing a hair from the Buddha's head, is one of Myanmar's holiest and some 2,000 years old. But Burmese temples are all works in progress. This one gleams with fresh white paint and gold leaf. In contrast, over the road, the dirty-yellow façade of City Hall is a study in crumbling neglect.

Even in the commercial heart of its largest city, religion remains central to life in Myanmar. Many Burmese felt the country's thuggish junta crossed a line last September, when its soldiers opened fire on monks leading protests against its rule—including some beside the Sule pagoda. It seemed proof that a regime fond of numerology and superstition ruled neither by divine right nor by popular acquiescence, but by force. Nobody knows how many were killed as the protests were quashed; much of Myanmar remains an information chasm. A United Nations rapporteur has said at least 31 died. In Yangon many believe, probably wrongly, that hundreds or thousands did. Suppressing the truth lets all sorts of rumours flourish.

As in 1988, when thousands did die as an anti-government uprising was put down, there was international outrage, followed by fresh sanctions last autumn. A United Nations envoy, Ibrahim Gambari of Nigeria, was sent to Myanmar to convey concern, and thousands joined protest marches round the world. But a few months on, the generals appear as immovable as ever. Indeed, diplomats who have visited them in the remote mountain fastness of their new capital, Naypyidaw, say they are even more confident. A squall has been weathered, and they can return to what they do best: wrecking their country and making a good living out of it.

Over a pricey cappuccino in Mr Brown's, a café just behind City Hall, in a dingy first-floor lounge favoured by courting couples, a young man discusses the protests. He took part in the previous round with a scarf covering his face. But the time, he says, is not right to take to the streets again. He cannot afford to. Many others say the same. He works as a house-painter, earning about $30 a month, and lives in a Yangon suburb with his parents, landless farmers who make about $20 a month each. During the protests he went five days without work or pay. Like almost all his contemporaries, his ambition is to find a job abroad. He could get one in Singapore but would need to pay $3,000 for the privilege, an

unimaginable fortune.

Yet, quietly, low-level protests continue. In late March many monks boycotted annual state-run examinations in Buddhist literature. Soldiers have been, in effect, excommunicated. Monks refuse to accept alms from them, denying them karma-enhancing “merit”. And such is the thirst for revenge of many in Yangon that renewed protests are possible at any time. Cloistered in Naypyidaw, the junta may be caught unawares again. “They live in a bubble when they're out,” says one diplomat, “and a bunker when they're not.”

Repression continues, too. Many monks are still in their villages, where they were sent after the unrest. At a monastery in Pakokku, where the beating of monks last September played a big part in fanning the flames of protest, more than a third have yet to return. Some of those locked up during the protests are still detained—perhaps 1,000, alongside 1,100 long-term political prisoners. Others are still being arrested. On March 29th six young people were detained for staging a peaceful rally against the draft constitution the junta wants to foist on Myanmar. Another protester, Ohn Than, who was arrested last August while staging a silent sit-in to protest against fuel-price rises, was sentenced this month to life imprisonment. Some protest leaders are still in hiding, planning the next round. Others have fled to Thailand.

The official press remains laughably propagandist. (“Commander, Minister view thriving mung, sunflower plantations” was one recent front-page story in the *New Light of Myanmar*, the junta's English-language daily.) Access to foreign news is limited. But a threat this year to ban satellite dishes by imposing extortionate licence fees was not carried out. Perhaps the generals feared that losing the right to watch English football—a tea-shop passion—would have been the final straw.

Internet connections are at best patchy, and almost non-existent at times of tension, such as during last month's visit to Yangon by Mr Gambari. Foreign journalists are not allowed into the country, unless they pretend to be tourists. A number do. After a purge of the intelligence services in 2004, the immigration authorities appear to have mislaid their files.

A vote the army cannot lose

Tension will mount again next month. In its one gesture to political reform, the junta has said it will hold a referendum on the new constitution. This week it announced the date—May 10th—and published the draft, putting copies of the 194-page document on sale. If the vote goes ahead, and the draft is approved by 50% of voters, the junta says multiparty elections would follow in 2010. On “Armed Forces Day”, March 27th, Than Shwe, the senior general in the junta, promised he would then hand over power to a civilian government. The regime is waging a propaganda campaign to promote a “yes” vote. In big letters, as if speaking slowly to a classroom of dim children, the *New Light* pointed out that, if the draft is not approved by 2010, elections will be delayed. “If so, it will take longer for the nation to exercise democracy.”

Not, of course, that democracy is really on offer. “Guidelines” agreed after 14 years of aimless rumination by a committee appointed to take the generals' dictation appeared last September. They made clear that some of the main features of military dictatorship would persist. The army chief would have the power to intervene in politics at will and several ministries would be reserved for army officers, as would 25% of seats in both houses of parliament. Aung San Suu Kyi, the detained opposition leader, would be excluded from politics, as the widow of a foreigner. The generals seem to have retreated, however, from a provision in an earlier version of the draft in which any amendment of the constitution would need 75% of the votes in parliament. Instead, it would have to be approved by 50% of the popular vote.

“The issue”, says Mark Canning, Britain's ambassador in Yangon, “is not Clause A, B or C. It's the whole superstructure of intimidation that hangs over it.” There is no dialogue with the opposition, whose most important members are locked up. And, under the law, criticising the convention that drafted the constitution is punishable by up to 20 years in jail.

Miss Suu Kyi's party, the National League for Democracy, has called for a “no” vote. Exiled activists and monks advocate a boycott. Many critics of the regime who used to think any change was better than none have changed their minds since last September's violence. However, a resounding “yes” vote seems inevitable. The junta surely will not repeat the mistake it made in 1990, when it held an election and was astonished to be routed. Miss Suu Kyi was already in detention. Yet the League won more than 60% of the votes and 80% of the seats, even doing well in areas dominated by soldiers.

The League fears that, before or after the referendum, it might be banned. Already its organisation has been whittled down to little more than a head office in Yangon. The parliament that emerges in 2010 may include a handful of token opposition politicians. But it will probably be dominated by soldiers, by the junta's cronies—urban businessmen and rural landowners—and by members of a new political party the junta is planning to form. Its nucleus would be the “Union Solidarity and Development Association” (USDA), a pro-junta group formed in 1993. USDA is one of a number of ill-defined “mass social organisations” that claim over 20m members—presumably by pressganging students, civil servants and others to join up. It is best known for a hard core of white-shirted thugs, used for pro-junta rallies.

The parliament would also include representatives of the “ceasefire groups”, the dozen or so ethnic insurgencies on Myanmar's borders with which the junta has reached truces. Some groups, such as the Karen National Union, fight on. These wars have dragged on since independence in 1948. In his book on Myanmar, “The River of Lost Footsteps”, Thant Myint-u argues that the West tends to see the country as the seat of a thwarted Eastern European-style people-power revolution. But it is in fact a war-torn disaster area, like Afghanistan or Cambodia. The constitution, he says, would at least formalise a sort of peace with some of its insurgents.

It would be wildly optimistic to hope that creating a parliamentary system of the sort the junta seems to envisage might, over time, bring pluralism. But the process does at least imply some change in Myanmar's predicament. And, as Miss Suu Kyi used to say, Myanmar is like a frozen river: it looks still, but who knows what turbulence is roiling the waters under the ice?

Jatrophied

For most Burmese, the predicament is economic as well as political. Freedoms have been trampled on for decades. And making a living is actually getting harder. Last year, as in 1988, it was an economic grievance—an increase in the fuel price as subsidies were slashed—that sparked political unrest. It is not that the economy is on the point of collapse. It collapsed long ago. Those eking out a living in the rubble are still vulnerable to aftershocks.

Collapse is not immediately evident in Yangon. There are ugly shanty towns and slums. But busy streets, a few swanky hotels and shops, advertisement-filled business journals and some palatial mansions in the leafy hills testify to a thin but not insignificant layer of middle-class comfort—and a rare splash of grotesque wealth. Until the 1990s, Yangon seemed frozen in its colonial past. Almost the only cars on its broad avenues were ancient, patched-up sedans. Ne Win, the dictator who led the army into power in 1962, pursued a “Burmese Road to Socialism” of autarky, isolation and utter stagnation. After the 1988

uprising the generals allowed a partial opening up, and a minority has prospered.

Unbidden, a taxi-driver takes a detour to drive past the high gates of a palace he says belongs to Tay Za, the regime's most prominent business crony. Beyond the reinforced grille half-a-dozen shiny new sports cars can be glimpsed. “Dirty money,” snarls the driver, alleging it comes from Myanmar's big drugs trade (mainly, these days, methamphetamines rather than heroin). But when it tightened sanctions on Mr Za in February, America's Treasury called him just an “arms dealer and financial henchman” of the junta.

Reuters

A confident Than Shwe on Armed Forces Day

Underpinning the wealth of the elite is more than drugs and guns. Its biggest legal export is of natural gas to Thailand. India and China are also hungrily eyeing other oil and gas reserves, and already the generals can relish the prospect of a windfall from a planned pipeline to China. The Thai sales earned an estimated $2.7 billion last year, 45% of total exports. But this neither trickles down nor creates many jobs. The junta spends the money on itself, its arsenal and its absurd new capital. By contrast, a small garment-export industry has been destroyed by Western government sanctions and consumer boycotts, putting an estimated 100,000 people out of work.

So, beyond agriculture, there are few jobs. And in the countryside life is ever grimmer. A survey late last year by the government and the United Nations Development Programme found that of a population of about 53m, 30% lived below the poverty line. Infant mortality rates were high, at 76 per 1,000 live births. The UN's World Food Programme (WFP) says that 32% of children under five are malnourished. Of children enrolled in primary school, 57% drop out.

Feeding itself should be the least of Myanmar's problems. Burma, as it was until the junta renamed it in 1989, was once the ricebowl of Asia. Even today, and with rice in shorter supply across the continent, it produces a national rice surplus. Yet many of its 14 states or divisions have deficits. In northern Rakhine food shortages are perennial and malnutrition rife. There are also deficits in the “Central Dry Zone” and in Shan state, where the eradication of opium-poppy fields has impoverished farmers. Rice distribution is disrupted by pigheaded divisional commanders clinging on to their surpluses, and by army restrictions on internal traffic. So, in what one development worker calls a “heresy”, the WFP is helping feed Myanmar.

Alarmingly, despite agricultural plenty, Myanmar has the classic conditions for a famine: acute poverty, poor or non-existent flows of information and crazy policies. In one cackhanded intervention in agriculture, the junta in 2006 ordered every farmer with an acre (0.4 hectares) of land to plant “physic nuts” (jatropha) around the edge of his plot. It was so keen on the crop that it also set up special plantations. The idea was to make biofuels to meet Myanmar's energy shortage—even much of Yangon spends most evenings in darkness. But Myanmar lacks the refineries to turn the plants into fuel. The policy has been cited by many refugees pitching up at the Thai border as one reason for their flight: typically, the junta has been dragooning farmers into working for no pay in its jatropha plantations, so it becomes even harder to make a living.

Where Myanmar boils over

Burma was a crossroads of Asia. Myanmar's isolation is a new phenomenon, and its borders still provide a safety valve of sorts. That is especially true of Thailand, which has absorbed perhaps as many as 2m Burmese immigrants. Some analysts suggest that a sharp downturn in the Thai economy, closing that

valve, might cause an explosion in Myanmar.

Even if economic hardship provokes another outburst of popular unrest, however, there is little reason to think the junta cannot handle it. It has about 500,000 soldiers, twice the number in 1988, despite the subsequent ceasefires in many of the insurgencies it was fighting. And the army has so far proved willing to shoot civilians—even monks—if ordered to.

Before the purge in 2004 of Khin Nyunt, the intelligence chief who was then prime minister, it was possible to perceive policy rifts in the junta's ranks. Some seemed to favour a cautious opening to the West, even if it meant talking to Miss Suu Kyi. Some analysts believe the junta is still divided: over the succession to Than Shwe, said to be ill, though he looked hale in March; over the alleged rivalry with his number two, Maung Aye; and over the transition to “civilian rule”. This seems plausible. But to hope for a mutiny, or self-destruction by the army, is wishful thinking. Its generals are probably too afraid of hanging separately not to hang together.

Some of the students who fled to the Thai border in 1988 expected to return, like Aung San, Miss Suu Kyi's father and Burma's liberation hero, as part of a conquering foreign army. One theory to explain the junta's bizarre move to Naypyidaw in 2005 is that, after the war in Iraq, it too feared invasion.

Now, veterans of the exile movement have almost given up hope of concerted diplomatic pressure, let alone military action, against the regime. People power, says one, is the only hope. At present that suggests only failure and bloodshed. And the outside world is certainly in disarray. The West favours sanctions and punishment; but Myanmar's fellow members of the Association of South-East Asian Nations (ASEAN), as well as India and, above all, China, hope their continued engagement with the junta will win them influence. China did indeed seem to persuade the generals to receive Mr Gambari and institute a dialogue with Miss Suu Kyi.

Than Shwe, however, would not even meet Mr Gambari on his most recent visit, last month. The West, meanwhile, has few levers of influence left. In part this is a result of having followed Miss Suu Kyi's own wishes. In the late 1990s, when the conditions of her detention were briefly eased and she could talk to the world, she favoured using sanctions and boycotts, including even of tourism, to put pressure on the junta. It is assumed she still does.

The Nobel peace-prize-winner's undoubted moral authority and courageous perseverance give her stance considerable weight. So does her huge electoral mandate. It may be old, but no one has a better one. Some Western policymakers now see Miss Suu Kyi as part of the problem. But that is daft. Without her, the opposition would lose not just a figurehead, but perhaps the last flicker of hope in Myanmar's political darkness.

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The Democratic race

Welcome to the Super Bowl

Apr 10th 2008 | PHILADELPHIA
From The Economist print edition

AP

Post-industrial Pennsylvania will decide whether Hillary Clinton can continue with her presidential bid

Get article background

IN 1754 George Washington, then a young lieutenant-colonel fighting for the British, reputedly fired the first shots of the French and Indian war in Pennsylvania. The question now hanging over American politics is whether Hillary Clinton will fire the last shots of her presidential bid in the Pennsylvania primary on April 22nd. The state's Democratic primary has not mattered since 1976, when Jimmy Carter clinched the party's nomination by beating Henry “Scoop” Jackson and Morris Udall there. But it most assuredly matters this year.

Pennsylvania is a big state—the sixth-biggest in the country, in terms of population—and a varied one. James Carville famously described the state as “Pittsburgh and Philadelphia with Alabama stuffed between them”, but in fact “Alabama” is divided between rolling countryside dotted with Dutch-style barns in some parts of the state and forbidding Appalachian hills in others. Pennsylvania contains beaten-up rustbelt towns but also spanking corridors of high-tech start-ups and big-box stores. Pittsburgh feels decayed, like Cleveland, Ohio. Philadelphia has plugged itself into the booming Boston-Washington corridor, so much so that some New Yorkers condescendingly refer to the city as their sixth borough.

Electorally, Pennsylvania is a stronghold of Reagan Democrats—the white blue-collar workers who side with the Democrats on the economy but with the Republicans on security and moral issues. About 30% of its households contain union members, while 46% of its voters own a gun. “The Deer Hunter” was set in Clairton, near Pittsburgh. Dover, on the other side of the state, became famous in 2004 when the local school board required teachers to put forward “intelligent design” as a rival theory to evolution. But Pennsylvania also has its fair share of liberal professors—it has some of the best universities in the country—and middle-class professionals who are disillusioned with George Bush's Republican Party.

All this makes the state a perfect laboratory for America-watchers: and indeed John Updike set his great four-novel study of his American Everyman, “Rabbit” Angstrom, in the state. But it is also a nightmare for political strategists, awkwardly mixing elements of both the Southern-fried politics of the sunbelt and the culturally liberal politics of the north-east.

As a result, Pennsylvania has been a swing state in every close election for the past 70 years, and the two parties have regularly swapped control of the governor's mansion in Harrisburg. Mr Bush visited the state more than 30 times in his first term, more than any state apart from Texas. The Democrats have

won the state in the past four presidential cycles. But John McCain currently leads Barack Obama in head-to-head polls there.

Pennsylvania is a “no excuses” state for the Democratic candidates. The two rivals have had six weeks to prepare for the primary, so they cannot blame “momentum” or accidents for any misfortunes. Pennsylvania's Democrats also operate a doubly closed primary: you not only need to be a registered Democrat to vote, but you also need to have registered at least a month before the contest. Mrs Clinton will not be able to attribute a good performance on Mr Obama's part to gate-crashing by independents or even Republicans.

Pennsylvania has long been presumed an easy state for Mrs Clinton to win. More recently, the polls have suggested a tightening race. If Mr Obama can hold Mrs Clinton's margin of victory to five points or so, then he will be unstoppable, secure in his lead in the popular vote and the delegate count (and if he wins the state, then Mrs Clinton will be finished). But if Mrs Clinton can repeat her ten-point victory in Ohio, she will be able to argue, with even more conviction than in the past, that Mr Obama cannot win the white working-class voters or the big swing states he needs if he is to take the White House

What are the chances that Mrs Clinton can pull it off? At first sight, they don't look bad. Pennsylvania is full of just the sort of Democrats who have flocked to her banner in Ohio and elsewhere: blue-collar workers, white ethnics, oldsters, conservative Democrats, party loyalists and Catholics. The state has a high proportion of people over 65 (15.1% compared with a national average of 12.4%, higher than any state except Florida and West Virginia). And it has a low proportion of people with college degrees, 25.4% versus a national average of 27%.

EPA

Parts of Pennsylvania offer classic rustbelt fare—battered by downsizing and fearful of change. The state was a cradle of America's industrial revolution, the home of robber barons such as Andrew Carnegie and Henry Clay Frick. But today it is littered with shuttered factories and shrinking towns. It has seen the slowest population growth of any big state in the country. In 1960 it had as many congressmen as California; now it has 19 to California's 53. Pittsburgh shrank from the country's tenth-largest city in 1940 to its 52nd in 2000. The battered manufacturing sector has lost a fifth of its jobs since 2000.

The local political establishment is mostly pulling for Mrs Clinton. Ed Rendell, the state's governor and a former two-term mayor of Philadelphia, is one of her most prominent national supporters. The mayors of

the state's two biggest cities, Philadelphia's Michael Nutter and Pittsburgh's Luke Ravenstahl, have both endorsed her. Mr Nutter's endorsement is particularly significant, since he is a reform-minded black. Congressman Jack Murtha, who has showered his district, including Johnstown, with federal money—72 projects worth $149m in the last fiscal year alone—and slapped his name on the local airport among other monuments, is a staunch supporter.

The Clinton name also has a magic ring for many Pennsylvanians. Both the Clintons visited the state frequently when they were in the White House, and Mr Clinton took the state by nine points in both 1992 and 1996. Mrs Clinton's father was born in Scranton and is buried there. Donald Kettl of the University of Pennsylvania points out that when Mr Clinton appeared in Philadelphia after his heart surgery, a crowd of 100,000 people turned up to wish him well.

Not so fast, Mrs Clinton

But look a little harder at the state, and the picture becomes rather murkier. Job growth since 2003 has been 3.2% compared with Ohio's 0.5%. Greater Philadelphia has large concentrations of high-tech companies and business service operations. Even some of the state's grittier areas have been reinventing themselves. Ten times as many Pittsburghers work in the city's hospitals and universities as in the steel industry. Taken as a whole, the state has seen 16.9% growth in employment in education and health services since 2000, and 15% growth in jobs in professional and business services.

Nor is the state's political machine as solidly pro-Clinton as it was. Bob Casey, the junior senator, has endorsed Mr Obama and joined him on a recent bus trip across the state. Mr Casey's father was a popular governor. Mr Casey himself is a darling of the Reagan Democrats—a Catholic who is left-wing on economics but conservative on abortion and gun rights, a combination which helped him to beat Rick Santorum, his Republican predecessor, by 18 points in 2006. Nobody could be better positioned to help Mr Obama with Catholics (whom he has lost to Mrs Clinton in 18 of the 24 primaries surveyed so far) and downscale voters. John Kerry's support for Mr Obama may also prove significant. His wife, Teresa Heinz Kerry, is one of the most powerful women in the state, the widow of a popular (Republican) senator and an influential philanthropist.

Mr Obama's strategy in Pennsylvania is to eat into Mrs Clinton's base (as he did in Wisconsin) while also supercharging his own supporters (upscale liberals, blacks and younger voters). Here Mr Casey's endorsement should help. Mr Obama has also been engaged in a blue-collar charm offensive, swapping his grand speeches for cosy town-hall meetings and even engaging in the quintessential white-guy sport of bowling. But he may have as little luck with his charm offensive as he did with hitting the pins.

His office in Johnstown displays the usual posters about “hope” and “change”. But they strike a discordant note. A nearby factory, a behemoth in its time, is boarded up and decaying. The local estate-agent advertises a three-bedroom house for $8,000. Most of those in the local restaurants are elderly whites on Social Security.

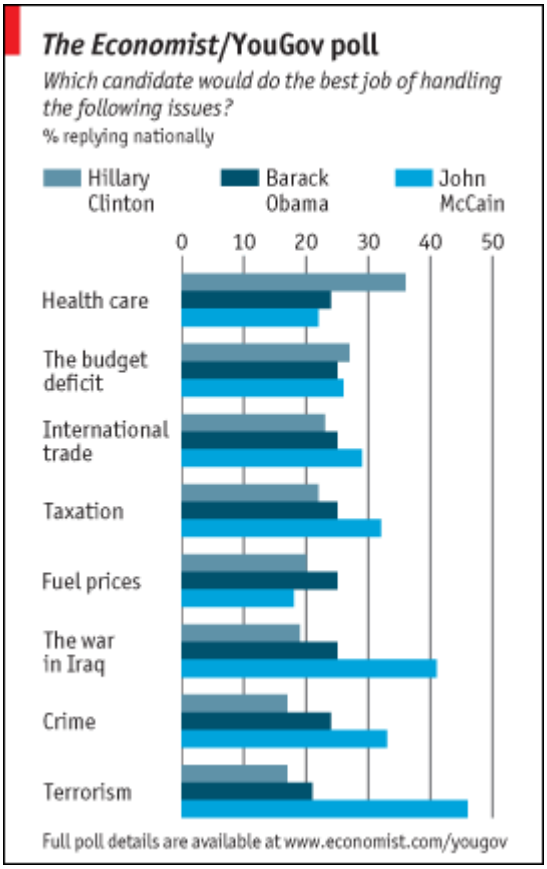
But the second half of Mr Obama's strategy is more hopeful. Mr Obama won Missouri despite losing the vast majority of the state's 115 counties. He could do the same here. Ironically, the best model for Mr Obama to follow is Mr Rendell's own victory over his friend Mr Casey in the race for the Democratic nomination for governor in 2002: Mr Rendell won by 57-43%, despite taking only ten counties to his opponent's 57, because he triumphed in the Philadelphia region.

Some 60% of the state's Democratic voters live in the greater Philadelphia area. The city contains large numbers of blacks (about 40% of the electorate), upscale professionals and students. Its suburbs have also been trending Democratic.

The *Politico*'s Ben Adler warns that Pennsylvania might not prove to be as much of a treasure trove of student votes as Iowa and New Hampshire, thanks to the strict rules governing voting and the fact that the state is a net importer of students. But Mr Obama is looking strong with the professional crowd. More than 100,000 new Democrats signed up before the March

24th deadline, and more than 86,000 voters switched their party registration. An unscientific drive-by survey of lawn signs in the suburbs also showed Obama signs outnumbering Clinton ones by four to one.

The available evidence from the pollsters is more mixed. Several polls have shown Mrs Clinton's lead diminishing (and an American Research Group poll taken between April 5th and 6th shows the two in a dead heat). But a poll by SurveyUSA shows Mrs Clinton with a striking 18-point lead. If the first poll is right, then Mrs Clinton is doomed; but if the second poll is on the money, then the Democratic Convention may yet see a fight worthy of that local Philadelphia hero, Rocky Balboa.



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America and Iraq

A year of surge, five years of war

Apr 10th 2008 | WASHINGTON, DC, AND BAGHDAD
From The Economist print edition

General Petraeus offers some faintly hopeful news, but no quick way out of Iraq

Get article background

AFP

You want the good news or the bad news?

ROMAN generals, after a foreign victory, earned a triumph at home. General David Petraeus, having yet to win in Iraq, was interrogated this week by impatient senators. The only similarity to a Roman triumph was that the *Washington Post*'s sketch writer bobbed up and down behind the general's shoulder, thinking up witty ways to remind him he is mortal.

General Petraeus, America's top soldier in Iraq, and Ryan Crocker, the American ambassador there, argued that in the seven months since they last testified before Congress, real but fragile progress has been made. The "surge" of around 30,000 extra American troops since last spring has reduced the level of violence. The numbers of attacks and civilian deaths, which peaked at horrific levels towards the end of 2006, have for six months been as low as they were before the bombing of the gold-domed mosque in Samarra in February 2006 started something close to a civil war between Sunnis and Shias.

The Iraqi government is conducting its own surge, the general said. It hired an extra 100,000 soldiers and police in 2007. Another 90,000 paid volunteers, called the "Sons of Iraq", have signed contracts to help Iraqi and coalition forces protect their neighbourhoods. These volunteers are armed and local, which makes them well-placed to spot any insurgents in their midst. They in effect pay for themselves, said the general, since their wages are outweighed by the value of the army vehicles preserved since the violence has eased, not to mention the lives saved.

Political progress, meanwhile, has been "frustratingly slow" but nonetheless substantial, said Mr Crocker. Iraqis are growing more optimistic, and their oil-fuelled economy is growing nicely. Crucial laws have been passed, including one defining the relationship between the centre and the provinces, which Mr Crocker said followed a debate "similar in its complexity to our own lengthy and difficult debate over states' rights".

That debate, in America, involved a civil war. Iraq, he implied, may escape without one, but only if America sticks around long enough. By the end of July the extra surge troops will have left Iraq. General Petraeus said he would urge President George Bush to stop and ponder the conditions on the ground before reducing troop strength any further.

His refusal to spell out how or when America can leave Iraq irked the senators. Barack Obama pressed him. Among the "parade of horribles", he said, the two that matter most are al-Qaeda and Iran. America cannot hunt down and eliminate every single bin Ladenite, he said. Nor can it prevent Iraq's big neighbour from wielding at least some influence. The goal, suggested Mr Obama, should be an Iraq that is messy but manageable. "When you have finite resources, you've got to define your goals tightly and modestly," he said.

Democrats and several Republicans asked harsh questions about the Iraqi government's recent attempt to crush militias that support Muqtada al-Sadr, a firebrand with many followers among Shias, especially the poor. Raids by the Iraqi army in Basra last month ended in stalemate at best. Hundreds of Iraqi soldiers and police deserted or otherwise failed to do their duty. Why was the mission so ill-planned, asked the senators, and why was America kept in the dark about Iraqi prime minister Nuri al-Maliki's intentions until the last minute?

Some senators fretted that America was being sucked into a sectarian civil war. Even John McCain, the presumptive Republican nominee, called the Basra operation a “disappointment”. Mr Crocker said it was encouraging that Iraq's central government, though dominated by Shias, was willing to take on Shia extremist groups. The fighting in Basra has shaken up Iraqi politics, he claimed, boosting Mr Maliki and putting Mr Sadr on the defensive.

All three senators vying for the presidency said they wanted to withdraw from Iraq as quickly as would be wise. They differed sharply as to how quickly that might be. Hillary Clinton said that an “orderly” withdrawal should start now. Mr Obama said that a timetable for pulling out would force Iraqi politicians to take responsibility for their own country. Mr McCain warned that a hasty withdrawal would lead to mayhem, which America might have to re-invade to quell. All three sounded grave, mindful that in less than a year the whole mess will belong to one of them.

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Pollution

Something smells a bit fishy

Apr 10th 2008 | BRAWLEY, CALIFORNIA
From The Economist print edition

In a “green” state, an environmental disaster looms

FEW people visit the Salton Sea these days, though when the wind is in the right quarter tens of thousands can smell it. The shores of California's biggest lake are studded with dead fish and dilapidated mobile homes. Photographers occasionally use it as an apocalyptic backdrop. It is slowly becoming more toxic, with the decline likely to accelerate. Yet the state that preaches environmentalism to the rest of the world appears oddly unsure of what to do.

The Salton Sea was created in 1905, when a canal breach inundated part of the Mojave desert. Since then it has been supplied almost entirely by run-off from irrigated farms in the Imperial Valley. Because it has no outlet, the lake has gradually become saltier. By the 1950s it supported large populations of imported sea fish. Marketed as “California's Riviera”, the Salton Sea briefly attracted more tourists than Yosemite National Park.

Motels built during the boom are now boarded up. The lake is 30% saltier than the Pacific Ocean, and much more polluted. Since 2003 only one edible fish, the hardy tilapia, has been seen—and even that is prone to mass “die-offs”. Algae thrives, accounting for the smell. Thanks to more efficient farming and water recycling in Mexico, run-off is reduced and the lake is slowly shrinking. Its surface will begin to drop much more quickly from 2017, when the local irrigation district is no longer compelled to supply it with water. Then the real problems will begin.

The Salton Sea is shallow—just 50 feet (15 metres) at its deepest point—so a small drop in volume exposes a lot of silt. As the lake bed dries, dust will be whipped into the air. This is likely to worsen an already severe problem. Against strong competition, Imperial county has some of California's worst air, with the highest rate of childhood hospitalisation for asthma. A housing boom north and south of the lake means that many more people will be exposed to any dust. Since 2000 the county, which is three-quarters Hispanic, has grown almost twice as fast as the state as a whole.

Last spring California's resources chief opted for a plan to rescue the sea that involves a series of channels, a 52-mile (84km)-long sea wall and $8.9 billion in capital costs. Few think it has any chance of being enacted. Thanks in part to Hurricane Katrina, money and political attention is concentrated on the crumbling levees around Sacramento, the state capital. Compared with the dire consequences of a collapse there, the Salton Sea's slow death does not seem pressing. Greg Smith, a local businessman, sums up the prevailing mood as “Aw, shucks”.

As its grand schemes falter, the state is pressing ahead with a more modest plan to turn between 400 and 800 acres (160-320 hectares) of the sea into shallow ponds. This would moisten a bit of the exposed lake bed and provide an emergency stopover for the enormous flocks of geese, avocets, grebes and teal that visit the Salton Sea. Yet it is not clear how even such an inadequate solution would be paid for. California's budget crisis means money for new projects is hard to come by. The Salton Sea Authority, which oversees recovery efforts, has struggled to pay the rent for its offices.

A shrinking, more toxic Salton Sea would have one advantage. Under the lake's south-east corner lies the most promising geothermal energy field in California. If it were fully exploited, the state's production of electricity from this renewable source would more than double. Vincent Signorotti of CalEnergy, which owns ten plants around the sea, is rather looking forward to the prospect of more dry land on which to drill.

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Free trade with Colombia

Countdown

Apr 10th 2008 | WASHINGTON, DC, AND BOGOTA
From The Economist print edition

Reuters

Take me to America

Protectionist electioneering threatens a good trade deal

Get article background

"HOW could we possibly retreat now?" Condoleezza Rice asked in the *Wall Street Journal* on April 7th. "The eyes of many nations are upon us, and let no one think that the choices we make will not echo around the globe." Fighting talk: but the secretary of state wasn't writing about Iraq, but of the battle over the Colombia Free Trade Agreement (FTA), a relatively small matter of policy that has exploded into one of the biggest fights over free trade in recent years. The stakes are not high for the United States' economy. But they are huge for Colombia, and for America's reputation.

For years, the United States has regularly renewed its preferential tariffs on nearly all Colombian exports, and in 2006 Colombia agreed to drop its barriers to American goods, too, in exchange for the arrangement being made permanent. Colombia hoped that the deal would prompt a wave of inward investment.

But Democrats in Congress, encouraged by trade unions, protested. They wanted further changes and more consultation from the president before he sent them the bill. Under the "fast-track" procedure, Congress cannot amend trade deals and has 90 days to pass or reject them after getting them. (Fast-track has now expired, but still applies to the Colombia FTA.) Nancy Pelosi, the speaker, is trying to unpick the rule, and so break the deadline. George Bush this week sent the FTA to Congress anyway.

That was a rash move. Some prominent Democrats are insisting that, before Congress considers the Colombia deal, it must pass legislation to help those who lose their jobs because of shifting patterns of trade. That will be hard, deadline or no. Those set against the treaty also claim that Colombia's government is hostile to labour unions, citing union members' deaths as evidence. That argument is somewhat unconvincing, since Colombian union members get killed at a lower rate than the population at large. But it resonates just now, with Barack Obama and Hillary Clinton both sceptical about international trade agreements. Indeed, the controversy over the deal led to the firing this week of Mrs Clinton's top consultant, Mark Penn, whose lobbying firm also worked for the Colombian government.

Killing the treaty would be a blow to Colombia and its leader, Álvaro Uribe, a staunch American ally in a region trending in the opposite direction. This week he issued a plea for America to maintain its long tradition of bipartisan policy towards his country and pass a measure that would help Colombia give its people alternatives to drugs and terrorism. If the deal goes down, the benefits of befriending the colossus to the north will seem less dependable across the continent, complicating American diplomacy there. And in America the FTA's death might shatter the long-standing consensus on free trade in Washington by emboldening protectionists.

The path to passage is narrow. The administration will have to give ground on trade-adjustment assistance; the Colombian government will have to reach an agreement with the Democratic leadership on human rights if there is to be any hope of cobbling together a majority. With the election looming, it won't be easy.

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Judicial elections

Torts and courts

Apr 10th 2008 | MADISON, WISCONSIN
From The Economist print edition

Life, liberty and the pursuit of a fair judiciary

JUSTICE is meant to be impartial. To this end, Britain's judges are appointed for life. In America federal judges are as well. But in 39 states some or all judges must face election and re-election, often with unbecoming hoopla. An election to the Supreme Court of the state of Wisconsin has just involved about $5.5m and more than 12,000 aired advertisements. *Habeas circus*, one might say.

Michael Gableman defeated Louis Butler, an incumbent on Wisconsin's Supreme Court, on April 1st, and the cacophony has not yet subsided. The scuffle has revealed two worrying traits of America's judicial elections.

First, they have become bitter contests. In 2006 91% of Supreme Court elections featured television advertisements, up from 22% in 2000, according to New York University's Brennan Centre. Second, the war over tort, or liability, reform has turned judicial elections into a nasty battlefield—especially in those states where state Supreme Court justices are directly elected. Karl Rove, once George Bush's Svengali, ascended in part by helping Texas businessmen fight trial lawyers for control of that state's highest court. The most expensive judicial race in America's history, a $9.3m fight in 2004, saw tort interests pour money into rival campaigns for a seat on the Illinois Supreme Court.

In Wisconsin the signs are troubling. The state's new era of judicial elections began last year. A series of rulings had galvanised corporate leaders, explains James Buchen of Wisconsin Manufacturers and Commerce (WMC), the state's business lobby. In one ruling in 2005, the Supreme Court overturned the state's caps on medical-malpractice cases. In another, the court ruled that a plaintiff could sue several manufacturers when he did not know which (if any) had caused him injury.

In 2007 groups from all sides poured cash into a state Supreme Court race, spending $5.8m. In this month's election one estimate is that the candidates together raised about $1m (Mr Butler outspent Mr Gableman), while outside groups such as WMC and the teachers' union spent more than $4.5m.

This year's flood of money might have drawn less censure if it had spurred a proper debate on judicial philosophy. It didn't. Mr Gableman's campaign produced an advertisement suggesting that Mr Butler, a black man, had helped free a black rapist. An advertisement supporting Mr Butler claimed that Mr Gableman was soft on paedophiles. Even WMC's advertisements were about crime. Regardless of the tenor of the campaign, money may be undermining faith in the court. A recent poll conducted for Justice at Stake, a group devoted to judicial independence, found that 78% of respondents in Wisconsin believe campaign contributions influence judges' rulings.

The question is whether to change the new dispensation and, if so, how? Comprehensive legal reform might help keep the tort war from seeping into judicial elections. But the elections themselves are unlikely to be scrapped. More feasible would be to pass reforms, such as public financing for campaigns or stricter rules to prevent conflicts of interest. In Wisconsin politicians and Supreme Court judges all work beneath the state capitol's giant dome. It is getting hard to tell the difference between them.

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Polygamy

Children of men

Apr 10th 2008 | ELDORADO, TEXAS
From The Economist print edition

A peaceful raid on a west Texas compound

IN 2004 representatives of the Fundamentalist Church of Jesus Christ of Latter-day Saints (FLDS) bought 1,700 acres (690 hectares) of scrubland north of Eldorado, a speck in west Texas. They said they wanted to build a hunting lodge, but locals were sceptical. “Hell, there ain't nothing out there to hunt,” explains Charles Conn, a ranch worker. The church, a radical polygamous Mormon sect, meant to build a compound. Hundreds of its members moved from Utah and Arizona to the Yearning for Zion Ranch and kept a low profile until March 29th, when a 16-year-old girl called for help. She had been forced to marry at 15, and had the baby to prove it.

That would make her husband, then a blushing boy of 49, a felon. It also gave the state justification to raid the compound. By April 8th Texas had taken 416 children into protective custody, and some 140 women had come along voluntarily. Authorities think the girl who made the call is among them, but more than one child has a baby in tow.

It is the latest blow to the FLDS, a splinter group of the Church of Jesus Christ of Latter-day Saints. Mainstream Mormons renounced polygamy in 1890. The FLDS considers it a sacred obligation. The sect has some 10,000 members, most living along the border between Arizona and Utah. Polygamy is illegal in both states, but generally ignored. Utah's attorney-general, for example, will not prosecute a polygamist unless there is evidence of abuse or welfare fraud. But prosecutions do occur. The head of FLDS, Warren Jeffs, is currently in prison for being an accomplice to rape. He officiated at the marriage of a 14-year-old to her 19-year-old cousin.

In building the ranch in Eldorado, FLDS leaders planned to hunker down and escape notice. That was a mistake. Texans are not used to polygamists in their neighbourhood. Authorities went in as soon as they had legal occasion.

The last raid on an FLDS compound was in 1953. Photos of crying children being taken away created a backlash in favour of the fundamentalists. That will not happen in this case. Public opinion is against the patriarchs, and the state will keep the children in custody if it finds evidence of abuse.

But it will be hard to prevent adults from returning to the sect if they want to, or are unable to envision another way of life. Mr Conn's wife has a collection of 100 stuffed gorillas, and the couple was thinking of driving to San Angelo to give them to the children. But Helen Pfluger, a volunteer, said that only the toddlers were interested in normal toys. By six or seven they had moved on to living dolls—their siblings. “Why would you want a teddy bear,” she wonders, “if you could have a baby?”

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Lexington

Help not wanted

Apr 10th 2008
From The Economist print edition

Illustration by Kevin Kallaugher

Congress is doing its best to lose the global talent war

Get article background

ONE of the most unjustly neglected films of the past few years is Mike Judge's “Idiocracy”. Mr Judge is the genius behind Beavis and Butt-Head, two of the most disgusting creatures on television, and Hank Hill, one of the wisest. In “Idiocracy” he turns his talents to futurology—and to the troubling question of the long-term impact of dysgenic breeding, junk food and grunge culture on America's collective IQ.

The premise is simple. Two typical citizens—the army's “most average” soldier and a street prostitute—find themselves transported 500 years into the future. They soon discover that they are towering geniuses compared with the knuckle-draggers who inhabit the America of 2505. The country's best university is run by Costco. People are named after brands such as Frito and Mountain Dew. Starbucks has become a chain of brothels. The president is a former porn star and wrestling champion.

One might imagine that America's politicians would do all that they could to prevent Mr Judge's dystopia from materialising. But when it comes to immigration they are doing exactly the opposite—trying their best to keep the world's best and brightest from darkening America's doors.

Consider the annual April Fool's joke played on applicants for H1B visas, which allow companies to sponsor highly-educated foreigners to work in America for three years or so. The powers-that-be have set the number of visas so low—at 85,000—that the annual allotment is taken up as soon as applications open on April 1st. America then deals with the mismatch between supply and demand in the worst possible way, allocating the visas by lottery. The result is that hundreds of thousands of highly qualified people—entrepreneurs who want to start companies, doctors who want to save lives, scientists who want to explore the frontiers of knowledge—are kept waiting on the spin of a roulette wheel and then, more often than not, denied the chance to work in the United States.

This is a policy of national self-sabotage. America has always thrived by attracting talent from the world. Some 70 or so of the 300 Americans who have won Nobel prizes since 1901 were immigrants. Great American companies such as Sun Microsystems, Intel and Google had immigrants among their founders. Immigrants continue to make an outsized contribution to the American economy. About a quarter of information technology (IT) firms in Silicon Valley were founded by Chinese and Indians. Some 40% of American PhDs in science and engineering go to immigrants. A similar proportion of all the patents filed

in America are filed by foreigners.

These bright foreigners bring benefits to the whole of society. The foreigner-friendly IT sector has accounted for more than half of America's overall productivity growth since 1995. Foreigner-friendly universities and hospitals have been responsible for saving countless American cities from collapse. Bill Gates calculates, and respectable economists agree, that every foreigner who is given an H1B visa creates jobs for five regular Americans.

There was a time when ambitious foreigners had little choice but to put up with America's restrictive ways. Europe was sclerotic and India and China were poor and highly restrictive. But these days the rest of the world is opening up at precisely the time when America seems to be closing down. The booming economies of the developing world are sucking back talent that was once America's for the asking. About a third of immigrants who hold high-tech jobs in America are considering returning home. America's rivals are also rejigging their immigration systems to attract global talent.

Canada and Australia operate a widely emulated system that gives immigrants “points” for their educational qualifications. New Zealand allows some companies to hand out work visas along with job offers. Britain gives graduates of the world's top 50 business schools an automatic right to work in the country for a year. The European Union is contemplating introducing a system of “blue cards” that will give talented people a fast track to EU citizenship.

The United States is already paying a price for its failure to adjust to the new world. Talent-challenged technology companies are already being forced to export jobs abroad. Microsoft opened a software development centre in Canada in part because Canada's more liberal laws make it easier to recruit qualified people from around the world. This problem is only going to get worse if America's immigration restrictions are not lifted. The Labour Department projects that by 2014 there will be more than 2m job openings in science, technology and engineering, while the number of Americans graduating with degrees in those subjects is plummeting.

Let them come

The United States is fortunate that it can solve its talent problem with the wave of a magic wand, by simply expanding the supply of visas to meet the demand. Raise the cap on H1B visas—or better still abolish it—and increase the supply of green cards, and the world's brightest will come flooding in. A country that is blessed with a dynamic economy and a world-beating higher-education system does not even have to go around wooing people, as other countries do.

Yet America suffers from one big problem: its political system is especially dysfunctional when it comes to immigration. A few brave souls are trying to lift the H1B visa cap. But most politicians are more interested in bellowing about building walls to keep illegal immigrants out than thinking seriously about the problem. And a few are even actively campaigning to reduce the number of H1B visas in order to keep American jobs for Americans. As Mr Judge might well wonder: how do you win the global talent wars when Congress is already in the hands of the idiocracy?

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Latin America's economies

A coming test of virtue

Apr 10th 2008 | MIAMI
From The Economist print edition

Illustration by Claudio Munoz

Once a byword for financial busts, Latin America has so far escaped this credit crunch unscathed. But for how much longer?

Get article background

WHEN Latin Americans get together with bankers on American soil it has usually been to seek succour for their sickly economies. Yet at the annual meeting of the Inter-American Development Bank (IDB) in Miami this week, the relative health of the participants was reversed. Thousands of empty flats in gleaming new skyscrapers clustering around Miami's downtown hotels bear witness to the severity of the housing-market bust in South Florida. Distracted by their own losses, the investment bankers were in subdued mood or stayed away. The Latin Americans, for their part, were preening themselves over the vigour of their own economies. They hope they have “decoupled” from their giant neighbour to the north.

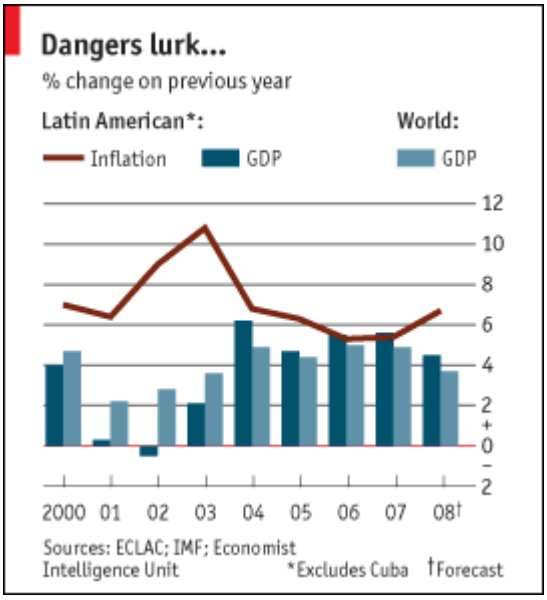
Are such hopes justified? Latin America is doing better than at any time since the 1960s. Economic growth has averaged over 5% a year since 2004, inflation has been generally low, direct investment is arriving in record quantities, and the region's current account and fiscal accounts are both in surplus. Of course the average conceals wide (and widening) variations. But to the surprise of some, the credit crunch has so far had little discernible effect. Indeed, as world prices for many of Latin America's key commodity exports continue to rise, the pace of growth has even accelerated in some countries.

Interest-rate cuts in the United States have prompted a number of investors there to buy higher-yielding Latin American shares and bonds. Most Latin American stockmarkets have been holding up relatively well. The region's sovereign bonds are no longer tracking junk bonds up north; spreads (ie, the premium over the yield on American Treasury bonds) have risen barely more than one-and-a-half percentage points since last July, while those on American junk bonds have risen five times as much. This month Fitch, a credit-rating agency, raised Peru's bonds to investment grade.

But strains and anxieties are starting to emerge. Higher world prices for energy and food mean that inflation is edging up. That is testing the policy regime (of inflation targets and flexible exchange rates) that has underpinned the achievement of price stability in many countries over the past decade. Several central banks, including those of Chile and Colombia, have missed their inflation targets. Some have begun to tighten interest rates. Brazil's Central Bank is widely expected to raise rates on April 16th, ending three years of monetary easing. But this may cause currencies to strengthen further, causing difficulties for exporters just when the current-account surplus is narrowing; Brazil is expected to post a current-account deficit of perhaps 1% of GDP this year, for example.

Meanwhile, the troubles in the outside world are raising doubts

about growth. So far the best guess is that a mild recession in the United States and a slowing world economy will cut growth in Latin America this year by one point, to 4.5%. Commodity-exporting South America should be relatively unscathed. Even in Mexico, where four-fifths of exports go to the United States, the economy has remained surprisingly robust. But Mexico's economy still moves in tandem with industrial production north of the border, and this may have further to fall. Production is currently flat; in 2001, when both countries were last in recession, it fell by 5%.



The real worry is 2009. A prolonged recession in the United States would be costly for Mexico, Central America and the Caribbean; they would receive less in remittances from migrants and fewer tourists, as well as exporting less. Since that kind of slump would prompt slower growth in Europe and Asia, prices for many commodities would fall, hitting South America too. In such a situation, capital flows to Latin America would almost certainly diminish.

The question is whether Latin America's governments have the policies in place needed to counteract a slowing world economy, notes Andrés Velasco, Chile's finance minister. “In Chile the answer is yes,” he says. The government has saved some $15 billion of its windfall copper revenues, and can spend this whenever the economy needs stimulation. To a much lesser extent, this goes for Mexico, Peru and some smaller countries, too. Mexico's government has launched a public-works programme that will add perhaps 1% of GDP to growth this year. In small and poor Honduras, where migrant remittances account for a quarter of GDP, the government is preparing a similar programme, says Rebeca Santos, the finance minister. At the other extreme, Venezuela, which has used its oil revenue to ramp up public spending and is running a fiscal deficit amid bonanza, will be stretched.

Some economists argue that other countries should do more to imitate Chile's rigorously counter-cyclical policies. In a paper prepared for the bankers' meeting (“All that glitters may not be gold”), the IDB's research department notes that 77% of the extra tax revenues generated by higher growth are being spent in ways that create new entitlements, rather than being invested or saved. It argues that almost two percentage points per year of Latin America's recent growth, and much of the improvement in its fiscal and external accounts, is the result of good fortune (favourable world conditions) rather than better management.

Maybe so. But whatever the cause, most of the region's economies are much more robust than they were. For most countries, a repeat of past collapses is “very unlikely”, concedes Santiago Levy, the IDB's chief economist. “But that's not the relevant question. The real issue is what we need to do to preserve reasonable growth” in a harsher environment. This means tackling Latin America's traditional weaknesses in education, productivity and technology. Optimists argue that this is starting to happen, thanks to the past few years of growth and stability. Sceptics are yet to be convinced.

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Ecotourism in Peru

Rumble in the jungle

Apr 10th 2008 | PUERTO MALDONADO
From The Economist print edition

How barefaced capitalism can help save the Amazonian rainforest

FROM the top of the 30m-tall viewing platform at Posada Amazonas, a thatched 30-bed tourist lodge in the Peruvian Amazon, immense trees—some more than a millennium in age—extend to the horizon. It seems an untroubled Eden. But below the canopy, danger lurks in the shape of a new paved highway.

Peru's Madre de Dios region has been undergoing an ecotourism boom. More than 70 “eco-lodges” cater to tourists from around the world, eager to experience a few days in the Amazon. Last year more than 60,000 foreigners visited the area, a 20-fold increase over 15 years.

Its success stems from two factors. First, the region comprises vast areas of pristine rainforest, including some of the most biodiverse places on earth, much of it protected (at least on paper) in magnificent national parks. It is also easily accessible. Its capital, Puerto Maldonado, is less than an hour's flight from Cuzco, gateway to Machu Picchu, the Incas' ruined city. From Puerto Maldonado, many of the lodges are just an hour or two away by riverboat.

Rainforest Expeditions, the company that runs Posada Amazonas, is the biggest tourism operator in the region, hosting a quarter of the tourist nights spent there. Founded in 1989, its goal was, and still is, to use tourism to foster conservation.

Posada Amazonas sits above a bend in the Tambopata River, on 2,000 hectares (5,000 acres) owned by the 148-family community of Infierno. In 1996 Rainforest Expeditions entered into a 20-year joint venture with the community, most of whom are indigenous Ese-éja people. Under it, they share the decision-making through an elected “control committee” and receive 60% of the profits—totalling $130,000 last year. They also got most of last year's $140,000 payroll. The company is now training them so that they can take over the whole operation in 2016.

The arrangement is already paying rich dividends: Infierno's literacy, nutrition and healthcare levels have all greatly improved, while the surrounding forest remains unspoiled. “We have stopped hunting so much,” Carlos Dejavijo, a control-committee member, says: “We are thinking more about the future.”

Because Rainforest Expeditions is a for-profit venture, says Eduardo Nycander, one of its founders, it has

been able to undertake conservation and social development more nimbly than governments or NGOs. “By protecting my interests,” he explains, “I am helping conservation. I'm not Father government, nor Mother NGO—I am here to make money.”

So far, Mr Nycander has applied his approach to a few thousand hectares. Now he has a chance to try it on a regional scale. Just 15km (9 miles) from Posada Amazonas, crews are at work improving the dirt track known as the Interoceanic Highway. By 2010, when the last 700km have been paved, it will form the first all-weather link between Brazil and Peru's Pacific coast, cutting the three-day trip from the Andes to the Brazilian border by two-thirds.

But roads in the Amazon are notorious for provoking waves of development and uncontrolled deforestation through logging, mining and agriculture. In Brazil, a halo of deforestation typically extends 50km on either side of a road within a decade of paving. Recent studies by Leonardo Fleck, an economist, have shown that the scale of destruction can result in a net economic drain, in spite of the infrastructure investment—expected in the Interoceanic Highway's case to reach around $1 billion. This is especially worrisome in Madre de Dios because the road cuts between the two biggest protected rainforest areas, and substantial sections of seven more protected areas lie within 50km of it.

Though Peru has wide-ranging environmental laws, they are little-applied and unfunded. Mr Nycander points to Peru's government as the main problem. Earlier this year it sought to award petroleum concessions inside the Tambopata Reserve behind Infierno. So conservationists and ecotourism operators in Madre de Dios are now scrambling to head off uncontrolled development on their own.

By promoting tourism, Mr Nycander hopes to create a big constituency wanting to keep the forest standing. In co-ordination with Odebrecht, the Brazilian company doing the roadwork, he hopes to establish an ecotourism corridor along the road. He believes that the preservation of a strategic swathe of 150,000 hectares involving a series of parks, private reserves, indigenous lands, ecotourism and conservation concessions, brazil-nut and other extractive permits—as the basis for an economy that depends on healthy rainforest—would do the trick.

Already land prices near the road are climbing, thanks to speculation in the face of high soya and corn prices. With the monetisation of ecosystem services like carbon storage still largely theoretical, ecotourism is one of the few non-destructive land uses capable of generating an immediate, competitive cashflow.

Kurt Holle, the co-founder of Rainforest Expeditions, reckons the company's scale is just big enough to secure the Tambopata Reserve and the much bigger national park behind it. But he cautions that the regionwide picture is uncertain: “It's like the front of the battle,” he says. “If the trenches—the ecotourism operations—are overrun, the reserves could be plundered.”

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Mexico's energy reform

Regeneration

Apr 10th 2008 | MEXICO CITY
From The Economist print edition

Felipe Calderón sends a modest plan to Congress, which girds for battle

Get article background

AFTER months of speculation and delay, Felipe Calderón, Mexico's president, this week announced plans to resuscitate Pemex, the country's foundering state-owned oil monopoly. In contrast with earlier reforms of the tax code and public pension systems, Mr Calderón has this time positioned himself as the face of the energy reform—the most important initiative so far of his 16 months in office.

In a televised address to the nation, Mr Calderón said the reform would give Pemex greater budgetary autonomy and strengthen the regulatory apparatus. It would allow Pemex to hire private contractors for the distribution and storage of refined products. And it would enable private contracting of refining; although Mexico is the sixth-largest crude-oil producer in the world, it now imports 40% of its petrol. The reform also includes a 5 billion peso ($474m) bond issue to raise money for two new refineries.

Mexico's known oil reserves are running out. Production has dropped by 300,000 barrels per day (some 10% of the total) in the past three years. This is mainly due to a decades-long lack of exploration in new oil fields, especially in deep water, because of a dearth of both money and technical expertise. Pemex has long served as the government's cash cow, now providing almost 40% of the budget. As a result, its technical capabilities have atrophied. A legal prohibition against contracting outside firms on a risk-basis (standard in the deepwater drilling industry) has prevented it from hiring outside expertise.

All this will not be changed overnight, particularly by the announcement of such timid reforms, watered down after months of fierce debate. But it would allow Pemex to provide performance incentives to private firms in a way that gets round existing legal prohibitions. Mexico's constitution stipulates that the oil industry, in state hands since 1938, must remain under state control. Any suggestion of allowing more private involvement in what is regarded as part of the “national patrimony” always provokes strong opposition.

Mr Calderón has gone out of his way to emphasise that he is not seeking to privatise Pemex. But Andrés Manuel López Obrador, de facto leader of the centre-left Party of the Democratic Revolution (PRD) and Mr Calderón's rival in the 2006 presidential election, claims that he is going to do just that. He has promised to call Mexicans out onto the streets in protest.

The issue has been made even more sensitive by the PRD's having been plunged into turmoil after last month's inconclusive leadership contest, with party moderates continuing to fight against Mr López Obrador's more radical faction. Some PRD members say they are ready to debate the reforms in Congress. But even supporters of the measures in the centrist Institutional Revolutionary Party acknowledge that Mr Calderón will be hard-pressed to get the bill approved before Congress adjourns at the end of April.

The best realistic scenario for the government would be to secure approval in the Senate before the recess, and wait for approval by the lower house when Congress reconvenes in September, or in a special session over the summer. Although late in coming and not as ambitious as it might be, Mr Calderón's package represents a necessary step forward for Mexico's oil industry, which, if left unreformed, will slowly watch the wells run dry.

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Venezuela

Strategic move

Apr 10th 2008 | CARACAS
From The Economist print edition

Hugo Chávez seeks to nationalise the cement and steel industries

Get article background

IN A surprise decision, the government of President Hugo Chávez announced in the early hours of April 9th that it would renationalise the huge steel complex belonging to Sidor, which has been embroiled in a bitter labour dispute for over a year. Just days earlier the president had taken a similar decision in relation to the cement industry: three foreign transnationals—Mexico's Cemex, France's Lafarge, and Holcim of Switzerland—which supply most of the local market, are being offered a joint-venture scheme like the one applied last year to the oil companies in the Orinoco heavy-oil belt.

Oil, steel and cement have all been declared “strategic” industries, and must therefore, according to the government's economic and political programme, be placed under state control. Sidor, the biggest steel producer in the Caribbean and Andean regions, was privatised in 1997. It is currently controlled by the Argentine-Italian consortium Techint, whose main shareholders, the Roccas, are very close to Argentina's first family—President Cristina Fernández and her husband, Néstor Kirchner, her predecessor as president. Last year Mr Kirchner pleaded with his close ally, Mr Chávez, not to renationalise the firm. The Mexican and French governments have also expressed concern over the cement nationalisation.

The Sidor decision could end up causing the government more headaches than it relieves. Since its privatisation, the plant has increased production and moved into profitability, whereas other components of the “basic industries” complex in the eastern Guayana region, which remain in state hands, are in the red.

But Sidor has done so by slashing the workforce from 13,000 to about 4,000, with around 9,000 jobs outsourced to at least 200 private contractors, possibly many more. This has angered the unions. They are also protesting over pay and retirement benefits. In theory the workers own 20% of the company (the government holds another 20%), but many complain that they are being cheated of their rightful dividends.

The union movement is itself split, with some accusing the government of having hitherto taken the side of Techint in the dispute. As the motor of Guayana's regional economy, Sidor is a big prize which will continue to be fought over, regardless of its ownership structure.

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The Olympic flame

Torch song trilogy

Apr 10th 2008
From The Economist print edition

Reuters

A lament for Tibet, sung in three Western cities and heard with fury in China

FOR nearly 50 years, since the flight of the Dalai Lama and some 100,000 Tibetan followers to India, their government-in-exile has ploughed a lonely furrow. It is still not recognised by any other government. But at least its colourful snow-lion flag is becoming familiar. That is among the many unintended consequences of China's catastrophic “relay” around the world of the Olympic torch. This week protesters have hung the snow-lion flag high above the Golden Gate bridge in San Francisco, and waved it through the centres of London and Paris.

The torch's bad week started in London on April 6th, where hundreds of protesters dogged it, as it was passed from famous hand to hand. At one point, protesters were blocked as it was whisked to Chinatown to give China's ambassador the chance to clasp it for a while. China's flag had an outing too. Hundreds of Chinese students were bused in. Some protesters were unruly, and 37 arrested.

The torch was guarded not just by the police but by a phalanx of Chinese men in blue-and-white tracksuits. Their jurisdiction was hazy, but their demeanour unmistakable. As Lord Coe, chairman of the committee organising the 2012 London Olympics, was heard to say, they were “thugs”. Their presence outraged even those who could not find Tibet on a map.

In the next stop, Paris, the parade was a fiasco. A giant banner, showing the five Olympic rings as handcuffs, was hung from the Eiffel Tower and another on the façade of Notre Dame cathedral. The athletes carrying the flame were virtually invisible behind the Chinese guards and French policemen on rollerblades. In the end they moved the flame onto a bus.

San Francisco responded by announcing a route that turned out to be a decoy. Protesters gathered on one side of town while the torch was rushed by bus to the other. For a few blocks the torchbearers ran, amid police three lines deep, along a mostly empty thoroughfare until protesters caught up with the parade. At that point the torch disappeared into another bus and left for the airport.

Protesters everywhere have demanded that China talk to the Dalai Lama, or just get “out, out, out” of Tibet. The torch itself has become an issue—in particular the plan to parade it through Tibet in June. But China has shown no sign of wavering on either the international or domestic parts of the itinerary. At a meeting in Beijing of the International Olympic Committee, Liu Jingmin, of China's games-organising team, said he was confident the international component could be completed.

The Chinese press has portrayed the disruptions as marginal, amid massive shows of support by ordinary citizens. State television aired a brief comment by Paula Radcliffe, a British marathon runner, endorsing

the importance of the protesters' cause while condemning their methods. The Chinese subtitle, however, removed the endorsement.

The Chinese press have called the thugs in blue and white “valiant and heroic”. It has reported that the squad is made up of officers from the paramilitary People's Armed Police, who have been training for this role since last August, including learning to give orders in five languages.

The relay is still due to visit a dozen other countries, including India, home to the Dalai Lama and the government-in-exile. With each protest, the pressure mounts on Western leaders not to attend the opening ceremony for the games in August. This week, France's president, Nicolas Sarkozy, spelled out his condition for going: fresh dialogue between China and Tibet. Britain's prime minister, Gordon Brown, managed to say both that he was not going and that he was not boycotting (maybe he had recalled an important EU meeting). Hillary Clinton and Barack Obama, the Democratic contenders for the American presidency, said George Bush should stay away. Kevin Rudd, Australia's prime minister, talked in a speech in Beijing of “significant human-rights problems” in Tibet.

Just as damaging for China in the long run, however, may be the effect on ordinary citizens. One place the Tibetan flag no longer flies is in the window of a bed shop in the English city of Sheffield. Its owner is a Tibetan sympathiser, who displayed the flag last month. Two young Chinese, apparently students, visited and made threats. That night his windows were smashed. A celebration supposed to mark China's emergence as a friendly global power has made some people think for the first time that its rise is something to fear.

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China and Taiwan

All quiet on the eastern front?

Apr 10th 2008 | BEIJING
From The Economist print edition

Not quite, but less acerbic relations beckon with Taiwan under Ma Ying-jeou

MIRED in trouble over Tibet, China can console itself with a rosier outlook on another front, Taiwan. Victory for the Kuomintang, the main opposition, in recent presidential elections has raised hopes in Beijing and Taipei of a much improved relationship. But this hinges on China's willingness to compromise.

Optimists in Taiwan see encouraging signs already. From April 11th-13th Taiwan's vice-president-elect, Vincent Siew, is to attend an economic forum on Hainan island. China's president, Hu Jintao, will also be there and the two are expected to hold a meeting. Mr Siew, a former prime minister, will remain a private citizen until his inauguration on May 20th. But such a meeting would be seen in Taiwan as a rare show of goodwill by China towards a government it does not recognise.

The official Chinese press has noted the victory of Ma Ying-jeou in the poll on March 22nd without the scorn it habitually heaped on the outgoing president, Chen Shui-bian. In eight years in office, neither Mr Chen nor his vice-president, Annette Lu, came close to meeting any Chinese official—not that it bothered them much, as leaders of Democratic Progressive Party (DPP), which favours Taiwan's perpetual independence from China.

The probable meeting between Mr Siew and Mr Hu in the tropical city of Boao would be an easy first step in what is likely to be a difficult journey. China's leaders, under pressure from rising nationalist sentiment stoked by the recent violence in Tibet, are unlikely to make big concessions on issues touching on questions of sovereignty. Few expect China to begin scaling back its huge military build-up on the coast facing Taiwan in the near future.

But China is relieved that Mr Ma, the president-elect, appears determined to reverse Mr Chen's efforts to promote “Taiwan” rather than “Republic of China” as the island's title. The Chinese media have relished Mr Ma's disapproval of proposed postage stamps marking his inauguration, which would use only the name “Taiwan”. But China has given no hint that it would do as Mr Ma wants and allow the island to gain admission to international bodies, such as the World Health Organisation, under the name “Republic of China”.

Mr Ma is also constrained by domestic politics. In an interview with the *Financial Times* this week, he said that it was natural for Mr Siew, a founding member of the Boao Forum, to visit China, but he himself would not go because this might generate negative “rumours”. He apparently meant the concerns among

DPP supporters that, in his haste for rapprochement, he might sell out Taiwan's interests. After their respective inaugurations, Mr Ma said, neither he nor his vice-president would be likely to visit. Lower-ranking officials would go instead.

In any event officials in Beijing are probably too preoccupied to think imaginatively about Taiwan. They are busy trying to stabilise Tibet and counter the diplomatic fallout from the crackdown there. This effort received another blow this week, when journalists on a state-sponsored visit to the Tibetan monastery of Labrang in Gansu province were accosted by monks calling for human-rights improvements and the return of the Dalai Lama.

China's leaders also worry about unrest in the region of Xinjiang. On April 1st China confirmed that a protest had taken place in late March in the city of Khotan. Reports say it involved hundreds of Muslim women from Xinjiang's Uighur ethnic group. There have also been unconfirmed reports of numerous arrests of Uighur activists in the cities of Kashgar and Gulja. The Olympic torch is due to pass through Xinjiang, including Kashgar, after being carried through Tibet.

Chinese leaders have another reason not to gloat over the KMT's victory. Officials in Beijing have long cited Taiwan as an example of the pitfalls of democracy, with its frequent street protests and its gridlocked legislature. Yet now a smooth transfer of power appears to be under way. China does not want its citizens drawing lessons from that.

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Security for the Beijing Olympics

Orange is not the only protest

Apr 10th 2008 | BEIJING
From The Economist print edition

Athens, London, Paris, San Francisco...please not Beijing

WHEN Chinese officials talk about security threats to the Olympic games, they use the term loosely. They worry not just about terrorist attacks, but about behaviour in the stands that poses no more of a risk than embarrassment to the hosts. As the Beijing games approach, saving face is becoming an ever bigger priority.

Western security experts say that following the recent unrest in Tibet, their Chinese counterparts seem all the more anxious about potential problems that people would normally pay little heed to. Preventing access to stadiums by fans wearing politically incorrect clothing is one. Officials worry, for example, that innocent-looking spectators might lift outer garments to reveal T-shirts with slogans calling for Tibetan independence. Expecting a strict dress code, activists have been urging protesters simply to wear the colour orange.

China's fears began to escalate even before the rioting erupted in Lhasa on March 14th. On March 2nd Björk Gudmundsdottir, an Icelandic singer usually known by her first name alone, shocked Chinese officials by calling out “Tibet, Tibet” after performing her song “Declare Independence ” in Shanghai. The Ministry of Culture has responded by tightening controls on foreign shows. These include more rigorous vetting of play lists and a ban on impromptu features such as encores. Even child actors are attracting closer scrutiny.

Chinese officials clearly hoped to make a point about indulging in outspoken but otherwise harmless behaviour in the build-up to the games in August by prosecuting a prominent Beijing civil-rights activist, Hu Jia. On April 3rd he was sentenced to 3½ years in prison, for libelling the Chinese political and social systems and instigating subversion.

China has been talking up the threats of terrorism from Muslims in its western region of Xinjiang and has spoken of possible suicide-attacks by Tibetans. But the threat of peaceful protest is a far bigger headache. It is becoming all the more so as a result of public anxiety about food-price inflation. The 30th anniversary in December of China's market-oriented economic reforms is fuelling debate among intellectuals about the need for political reforms to match. The Tiananmen Square protests of 1989 showed inflation and political discontent to be a volatile mix.

The unrest in Tibet has helped to rally support for the leadership among ordinary Chinese. Many agree with the government that the West is showing too much sympathy for Tibetans who carried out racist attacks (the government avoids mentioning numerous peaceful protests by Tibetans in recent weeks). But a surge of nationalist sentiment now being whipped up by officials also carries risks. Death threats made against several Western journalists for alleged bias in their reporting on Tibet suggest a real danger of violence.

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Kazakhstan

Going off the rails

Apr 10th 2008 | ALMATY
From The Economist print edition

Criminal, fall guy or hapless bystander?

THE Olympic flame started its contentious world tour peacefully enough, in Almaty, Kazakhstan's biggest city, on April 2nd. But that day was notable for more than the sight of President Nursultan Nazarbayev and other dignitaries waggling the torch aloft. The same day it became known that a senior official had been arrested by the financial police. Zhaksybek Kulekeyev, the head of the state railway company, Kazakhstan Temir Zholy (KTZ), and a former government minister, was later formally charged with taking a $100,000 bribe from a firm seeking to win a tender. His driver was detained as well.

KTZ's lack of transparency is notorious. But the amount of money involved is not large by the standards of corruption in Kazakhstan. The surprise is that Mr Kulekeyev, of all people, was caught. One of the highest-level officials ever accused of bribe-taking, he had a clean reputation and was considered a hard-working manager—unlike some higher-ranking officials. Some of his supporters claim he has been set up.

Sergey Zlotnikov, who heads the national chapter of Transparency International (TI), an anti-corruption watchdog, says there is now the political will to fight corruption because it is understood that, if left unchecked, it could threaten the very future of the state. A growing middle class in the oil-rich country is also demanding better legal protection of its rights.

But it will not be easy. Corruption is much worse today than in Soviet times when there was officially no private business. Kazakhstan regularly comes close to the bottom of international corruption rankings—150th out of 180 countries in TI's 2007 league table. Many previous anti-corruption campaigns have been ineffective, netting only small fry. They also lacked credibility because of the surprising wealth of some of the ruling inner circle. It might be that Mr Kulekeyev's arrest signals that the topic of top-level corruption is no longer taboo, and was a warning of more to come. Or perhaps he was just unlucky to cross a powerful interest group.

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Japan's politics

Advantage Fukuda

Apr 10th 2008 | TOKYO
From The Economist print edition

Perhaps, just perhaps, the tide is turning for the prime minister

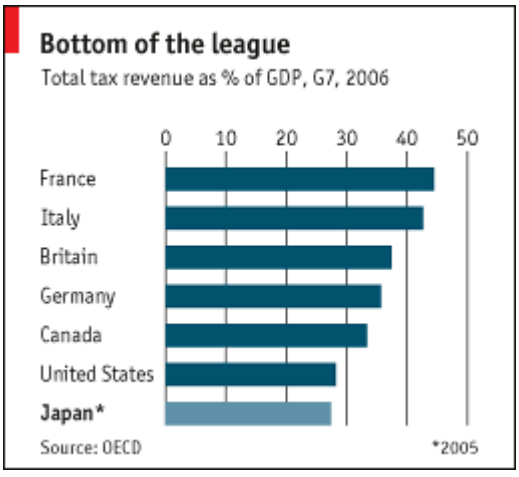
AN ODD new phenomenon: as public approval for Japan's prime minister, Yasuo Fukuda, sinks to new lows, his standing within the ruling coalition led by his Liberal Democratic Party (LDP) is suddenly rising, stilling fevered talk of palace coups. Mr Fukuda appears at last to be articulating a message of reform. The LDP's modernisers hope it is not too late.

The change came late last month, when Mr Fukuda opened a war on two fronts. He accused the opposition Democratic Party of Japan (DPJ), which controls the upper house of the Diet (parliament), of recklessness for blocking the renewal of a special tax on petrol. The DPJ had picked on the tax, whose proceeds go to building unnecessary roads, to highlight how the LDP is in thrall to pork-barrel interests. Since April 1st, motorists have enjoyed cheaper petrol.

Mr Fukuda opened a second front inside his own party, against the construction lobby, known as the “road tribe”. He argued that the special tax should swiftly be reinstated, but also that from next year the revenues, currently earmarked for road-building, should be put into the general budget. He also called for a review of road-building plans, which will cost the taxpayer ¥59 trillion ($580 billion) over the next ten years. The road tribe is upset. But it is loth to split the party, and has no choice but to back Mr Fukuda if it is to have any revenues to fight over. Hidenao Nakagawa, an LDP powerbroker, says that an end to the earmarking of the tax is now a “certainty” and insists that the LDP's future lies with Mr Fukuda.

Kuniko Inoguchi was a minister under Junichiro Koizumi, the reformist prime minister from 2001-06. She sees shades of Mr Koizumi in Mr Fukuda's stand against his party (though, cool and cynical, he could hardly be more different in character from the maverick “Lionheart”). Many areas of the budget, she says, are in the hands of bureaucrats, off-limits to the prime minister or even the finance ministry because they are often paid for by earmarked taxes. All these are now fair game. Others go further. Kaoru Yosano, an economy minister under Mr Koizumi and a potential successor to Mr Fukuda, insists that a comprehensive tax reform, the broader context in which the earmarking of taxes needs to be tackled, is suddenly back on the agenda.

The visible glee of Mr Yosano, a policy wonk, is understandable, for Japan's fiscal situation remains dire. Though the budget deficit fell from 8.2% of GDP in 2002 to 4% last year, gross public debt has reached 180% of GDP and is rising. A survey by the OECD published this week argues that the government's target of stabilising the debt-to-GDP ratio by the middle of the next decade is based on unrealistic assumptions about growth prospects.



The power of the construction lobby proves that room exists for the government to cut spending—but not by much. In particular, Japan's rapid ageing means that spending on pensions and health care will have to rise. For now, it remains well below the OECD average. So tax revenues will have to rise if holes in the budget are to be plugged; as a share of GDP, these revenues are also below those of G7 peers.

Mr Yosano sketches out the grand bargain. Income taxes for the very rich will need to go up as a largely symbolic gesture, while today's narrow base of income tax must be broadened. (The OECD also notes that the tax code discourages labour mobility and married women going out to work.) The corporate tax base will also have to be broadened (here, the OECD argues that once a raft of tax breaks is jettisoned, corporate taxes could actually be cut, stimulating the economy and bringing in more tax revenues). Lastly, indirect taxes must play a bigger part. In particular, says Mr Yosano, the sales tax should at least

double, in incremental steps, to 10%.

It is not quite impossible for Mr Fukuda to launch this formidable agenda. An early test will come on April 27th, when a by-election is held in Yamaguchi prefecture, in the south-west of Japan's main island. If the LDP vote collapses, colleagues in marginal seats may hesitate to back the prime minister in reinstating the petrol tax. But if Mr Fukuda brings his own party into line, proving to the public that he is a leader after all, then dealing with the opposition may seem like a doddle.

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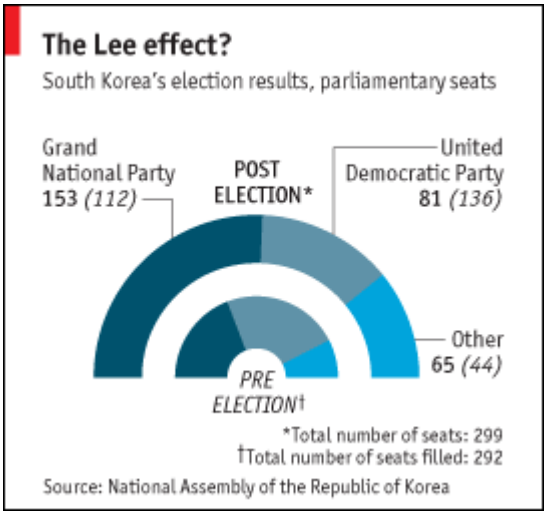
South Korea

Rites of spring

Apr 10th 2008 | SEOUL
From The Economist print edition

The conservative ascendancy gains the thinnest of parliamentary majorities


The Lee effect?
South Korea's election results, parliamentary seats
Grand National Party 153 (112)
POST ELECTION*
United Democratic Party 81 (136)
Other 65 (44)
PRE ELECTION†
*Total number of seats: 299
†Total number of seats filled: 292
Source: National Assembly of the Republic of Korea

"THE Bulldozer", as Lee Myung-bak, South Korea's new president, is known, has hit a roadblock already. In elections to the country's National Assembly on April 9th, his conservative Grand National Party (GNP) achieved its expected victory. But the GNP won the thinnest of majorities in the poll for the 299-member legislature, with just 153 seats. It will still not be straightforward to push through the ambitious reformist agenda Mr Lee has been biting at the bit to enact ever since his inauguration in February. Nor, with turnout at a record low of 46% because of inclement weather and widespread apathy, can he point to great popular impatience.

During his first weeks in office, Mr Lee's ambitions have been stymied by the opposition's domination of parliament. Legislators have had the temerity to question his ministerial appointments and disagree with his policies. Now Mr Lee will need the support of some non-GNP legislators to move ahead with his radical agenda, which includes the large-scale privatisation of state-owned assets, such as the Korea Development Bank, the promotion of private education, business-friendly tax cuts and regulation-slashing.

The opposition campaigned on a platform of containing the right-wing reformist zeal of the president. Its main component, the United Democratic Party (UDP), won 81 seats, down from 136. It also suffered devastating blows in two of the most high-profile contests. In a lower-middle-class district of Seoul, Chung Dong-young, who came a distant second to Mr Lee in the presidential election in December, was beaten by Chung Mong-joon, chairman of Hyundai Heavy Industries, a big shipbuilder. And Sohn Hak-kyu, a former GNP governor of Seoul's surrounding province and now the UDP's leader, fell to Park Jin, one of the president's confidants. Mr Chung and Mr Park promised more government investment in schools and parks, and in replacing ageing infrastructure.

For some Koreans, the greatest interest in the polls was in following the fortunes of Lee Hoi-chang, a former GNP stalwart, and Park Geun-hye, the daughter of Park Chung-hee, a former military dictator assassinated in 1979. Mr Lee deserted the GNP last year for his third abortive tilt at the presidency. He formed the Liberty Forward Party and won just 18 seats, below the hoped-for 20, which would have allowed the party to introduce legislation.

Last year, Miss Park was the president's rival for the GNP's presidential nomination. The purge of her supporters as GNP parliamentary candidates caused a minor split in the party. In her Daegu constituency in the south-east of the peninsula, Miss Park remained ostensibly a loyal if tight-lipped GNP member. But her supporters formed a "pro-Park" party, running against their former GNP colleagues. Their hopes of becoming a big electoral force in their own right, however, were dashed, as they won only 14 seats.

Like most previous elections, this one showed that South Korea remains deeply divided by regional loyalties. Cholla province in the south-west and Cheju island voted for the liberal parties. The rest of the country voted conservative. Mr Lee promised he would be a president for all. The voters, it seems, are yet to be convinced.

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Nepal's election

Mountains to climb

Apr 10th 2008 | KATHMANDU
From The Economist print edition

Nepalis vote; the peace process lives another day

Get article background

TO THE congratulatory whirring of millions of unseen insects, enlivened by the rising Himalayan sun, Nepali voters turned out early on April 10th. In the villages of the Kathmandu valley, long queues awaited the opening of polling stations. Within three hours, some had recorded a 50% turnout. As a preliminary endorsement of a troubled election, Nepal's first in almost a decade dominated by civil war and political strife, this was cheering.

Campaigning for the poll was violent, even by South Asia's grisly standards. Two candidates and a score of party workers were killed by rival party thugs. A dozen bomb blasts, including one at a mosque last month that killed two worshippers, further blighted the process. Diehard supporters of the soon-to-be-axed monarchy, as well as ethnic separatists in the southern Terai plain, were probably to blame.

More worrying, most of the pre-election violence was carried out by one of the main contestants: the Communist Party of Nepal (Maoist), which in 2006 ended a decade-long armed struggle. Its 23,000-strong rebel army is corralled under UN eyes, but intact. On the stump, Maoist leaders argued that anything less than a sweeping victory for their party would be evidence of massive rigging.

That was ominous: the Maoists are believed, in the absence of any reliable opinion poll, to be widely detested. But that they took part in the election—twice postponed, once on their account—was worth celebrating. Nepal, a country of 28m people, is a poor, lawless and fractious place. It faces worsening ethnic, caste-based and regional conflicts. The hoarding of power and riches in the capital, Kathmandu, causes huge resentment, which fed the Maoist insurgency. Indeed, under the terms of a shambling peace process, the basic shape of the Nepali state is an open question. The election has improved the odds the answer will be found peacefully.

Assuming, that is, the Maoists accept the results. Winning at least 80 seats—out of a possible 601—is rumoured to be the bottom line for their continued commitment to democracy. But a convoluted electoral system, voter intimidation and the passage of time since Nepal's last serious election, in 1999, make the outcome hard to predict. The aggrieved southerners should also win at least 80 seats, though split between different parties. They are one of several marginalised ethnic or caste groups for whom a block of seats has been reserved. The Terai lot successfully agitated for improved terms in February through a two-week blockade of Kathmandu.

Once convened, the next assembly's main task will be to draft a constitution that satisfies as many potential agitators as possible. It will be difficult. The peace process, which began with a popular movement against the dictatorial King Gyanendra in 2006, is based partly on a commitment by the

parties to make Nepal a federal republic. But they disagree about what this should in practice entail. The Maoists want an executive president and provinces drawn on ethnic lines. The Nepali Congress party, which led the interim coalition government, wants a figurehead president.

Some Congress members might even hope to retain King Gyanendra as a constitutional monarch. That is probably impossible. As its first act, the new assembly is supposed to finalise a decision of its predecessor to scrap the 240-year monarchy. So it was strange, and faintly alarming to his subjects, when the king broke a long silence on April 9th to urge his “beloved countrymen” to turn out and vote.

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Timor-Leste

Impunity reigns

Apr 10th 2008 | BANGKOK
From The Economist print edition

Little hope of justice for victims of the country's conflicts

AP

Eurico, free already

Get article background

THE birth and infancy of Timor-Leste have been attended by spasms of violence. As the former East Timor separated from Indonesia in 1999, murderous unionist mobs killed hundreds. In 2006 the harsh suppression of a protest by sacked soldiers triggered factional fighting that brought the country back to the brink of civil war, requiring the hasty dispatch of Australian-led peacekeepers. And in February this year President José Ramos-Horta was shot and almost died in an attack led by the rebel soldiers' leader, Alfredo Reinado, who was himself shot dead. An attempt was also made on the life of the prime minister, Xanana Gusmão.

Indonesia set up a special human-rights court, supposedly to bring those responsible for the 1999 killings to justice. But it was a whitewash. It absolved all the Indonesian army leaders suspected of orchestrating the violence—including General Wiranto, a former and perhaps future presidential candidate. The only person jailed was Eurico Guterres, the leader of an anti-independence militia. On April 7th Mr Guterres was freed after the Supreme Court, which had in 2006 upheld his ten-year sentence, decided he was not after all responsible for his militia's slaughter.

Another whitewash is expected soon. A “commission for truth and friendship”, created in 2005 by the governments of Indonesia and Timor-Leste, announced in late March that it was finishing its investigations into the 1999 violence and would shortly submit its final report to the two countries' presidents. As noted in a report in January by the International Centre for Transitional Justice (ICTJ), a human-rights group, the commission's main aim seems to have been to smother attempts at bringing culprits to book, because the two countries' leaders find it more convenient to pursue “friendship” than seek justice.

The United Nations regarded the truth commission as deeply flawed and boycotted it. The ICTJ's report says the commission's hearings gave those accused of violence a platform to make “self-serving” justifications without facing rigorous questioning. Indeed, it seemed to be more concerned with helping to rehabilitate the accused than helping the victims. Its chances of bringing justice were doomed before it started. It was given the power to recommend amnesties for perpetrators but barred from calling for prosecutions.

A tribunal set up in 2001 in East Timor under UN auspices did seek to prosecute Indonesian generals but

foundered for lack of jurisdiction. At the same time an earlier truth and reconciliation commission, set up with the UN's backing, looked at allegations over the period from Indonesia's invasion in 1975 to the killings as it withdrew in 1999. Its report, in 2005, did call for prosecutions. But it has been ignored. The UN still talks of seeking some way to bring prosecutions. But there is little enthusiasm for this among world powers—as illustrated by comments on April 4th from Christopher Hill, a senior American official. Visiting the region, Mr Hill dismissed the need for an international tribunal, saying that if the current, toothless commission was good enough for Timor-Leste's and Indonesia's governments, “it should be good enough for us.”

The chances of bringing people to justice over the more recent violence also seem slim. A new report by the International Crisis Group, a think-tank, says around 100,000 Timorese—a tenth of the population—remain in the refugee camps to which they fled in the 2006 conflict. Four soldiers, convicted of shooting eight policemen in the clashes, were freed on appeal and allowed to vanish. As for February's attack on the president and prime minister, Mr Ramos-Horta accuses the UN police and Australian peacekeepers of not trying to catch the rebels immediately after the shootings. Timor-Leste's police and army are being accused of abuses as they hunt the remaining rebels and their new leader, Gastão Salsinha. Even so, some Timorese suspect they could have caught them already had they really tried.

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Zimbabwe

Robert Mugabe refuses to give up

Apr 10th 2008 | JOHANNESBURG
From The Economist print edition

Illustration by David Simonds

After seeming to totter, Zimbabwe's president now looks determined to hang on by hook or by crook

Get article background

THE opposition says it has won, but Zimbabwe is holding its breath, with the official results of the presidential election still undeclared 12 days after the poll. In the meantime, Robert Mugabe is tightening the grip he seemed to have lost last week. People in his ruling ZANU-PF have been hinting at a second round; after a five-hour meeting of its top body on April 4th, the party said it would be firmly behind Mr Mugabe in the event of a run-off.

Hundreds of war veterans, who have been used in the past to bully people, marched through the streets of Harare, the capital; others began invading some of the farms still in white hands. The opposition says that dozens of its people in rural areas have been assaulted by pro-government militias. Two foreign journalists have been arrested but were freed on bail after a few days behind bars. The opposition Movement for Democratic Change (MDC) has asked the courts to make the electoral commission announce the results, and is accusing the authorities of wanting to impose a state of emergency.

The MDC says its presidential candidate, Morgan Tsvangirai, won outright, with 50.3% of the vote in the first round, based on results posted outside polling stations. The electoral commission acknowledged that ZANU-PF had lost its majority in Parliament. But the ruling party is demanding recounts in enough seats to reverse its loss if it were awarded them. It has also demanded a full recount of the presidential vote, though official results have not even been announced. Several election officials have been arrested, accused of undercounting votes for Mr Mugabe.

Meanwhile, Mr Tsvangirai flew to South Africa, where Jacob Zuma, the ruling party's leader, sounded friendlier than President Thabo Mbeki, with whom he is often at odds. Mr Tsvangirai also visited other neighbouring countries to drum up support. His MDC has upbraided regional leaders for their deafening silence and has called on the rest of Africa to intervene rather than wait for “dead bodies on the streets of Harare”. Zambia's president called an emergency meeting of the influential 14-country Southern African Development Community, which he chairs.

Rumours of back-room deals swirled. Some senior figures in Zimbabwe's ruling party and security forces

were said to have been in contact with the opposition. Diplomats from the region were reported to be trying to persuade Mr Mugabe to step down. But some African leaders, including Jakaya Kikwete, Tanzania's president who also chairs the African Union, privately complained that the Zimbabwean president would not take their calls.

So Mr Mugabe has decided to fight on. Though the ruling party is divided, those in it who want him to go have so far been afraid to stand up to him. When Simba Makoni, a former finance minister, openly broke ranks and stood as an independent, few party bigwigs dared back him openly.

Ahead of the poll, security chiefs said they would obey only Mr Mugabe, and there were fears of a coup immediately after the elections. The top ranks of the army and police control swathes of the state apparatus and play a big part in running the country. Officials who have grown rich from Mr Mugabe's patronage have a vested interest in his staying on.

Mr Mugabe is again playing the emotive land card, with the daily *Herald* newspaper, a government mouthpiece, fanning rumours that farms confiscated during the government's land reforms would be returned to white farmers if the opposition won. So-called war veterans, many of them too young to have fought in the country's independence war of the 1970s, have again invaded farms in an apparently orchestrated move to punish those believed to help the opposition. According to the Commercial Farmers' Union, some 60 farmers have fled their homes in the past few days. Diehard Mugabe backers have derided the MDC's victory claims as a “provocation” and say they will fight to defend the country's supposed sovereignty.

No one knows how long the electoral commission will sit on the presidential results while a divided ZANU-PF ponders what to do. A state of emergency would mean suspending the electoral process. A run-off, if it came to that, should take place within three weeks from the date of the first election, but some suggest Mr Mugabe may postpone it for 90 days, to give his party time to flex its muscle and re-establish control over voters, especially in the countryside. In any event, the incidents of the past few days point to a blunt counter-offensive. But heavy-handed violence or massive fraud look like the only things that could now keep Mr Mugabe in power.

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Zimbabwe's opposition

Morganatic message

Apr 10th 2008 | JOHANNESBURG
From The Economist print edition

What does the Movement for Democratic Change stand for?

Get article background

FOR nine years the Movement for Democratic Change (MDC) has focused on ousting Robert Mugabe at the ballot box. No one questions the courage and resilience of its leader, Morgan Tsvangirai, who has been imprisoned, badly beaten up and survived treason charges. But what if he actually took office?

The MDC says its first job, plainly, would be to rescue the economy: stop printing money, stabilise the currency (with inflation officially now at more than 100,000% a year), slash public spending, call in the IMF and bring market forces back into business, while favouring some state intervention to protect the poorest. It would also scrap controls on prices and foreign exchange, which have fed a thriving black market.

The MDC says it would not give back all confiscated land to white farmers, as Mr Mugabe charges. But it would immediately start drawing up a land audit. It talks of leaseholds and decent compensation for farmers whose land has been grabbed. It also wants to “harmonise” the land-tenure system so that peasants in communal lands have individual title.

The MDC has long demanded a new constitution to limit presidential powers. But Mr Tsvangirai, a former trade union leader with little formal education, has himself been accused of being autocratic in his own party. In 2005 the MDC split after he flouted a decision of his national executive and decided to boycott an election for the Senate, arguing that the people were behind him. David Coltart, a prominent MDC man, also criticised Mr Tsvangirai's faction for ignoring violence in the party's own ranks. The MDC splinter led by Arthur Mutambara refused to endorse Mr Tsvangirai as its presidential candidate in the recent poll, instead backing Simba Makoni, a former minister of the ruling ZANU-PF.

But the election confirmed that Mr Tsvangirai has the backing of Zimbabwe's masses, especially in towns but also among the rural poor. The MDC's Mutambara faction won ten seats in Parliament to the main one's 99. Some of Mr Tsvangirai's colleagues complain that, far from being autocratic, he listens to too many people and is indecisive. Some of those who wish him well think he has been serially outwitted by Mr Mugabe, especially in the past year's negotiations under South Africa's aegis. But the MDC was far readier for the elections this time round. In particular, it wrong-footed Mr Mugabe's people by airing results from polling stations rather than letting them be centrally tallied.

Would Mr Tsvangirai, if he became president, prove either democratic or competent? Regional precedents are not encouraging. Next door in Zambia, another trade unionist-turned-politician, Frederick Chiluba, defeated the country's veteran of independence, Kenneth Kaunda, at the polls, but was soon committing many of the worst sins of office. Mr Tsvangirai may be different; in any event, few think he can be as horrible as Mr Mugabe.

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Kenya

The other dodgy election

Apr 10th 2008 | NAIROBI
From The Economist print edition

It is not only Zimbabwe that is still gripped by post-ballot chaos

Get article background

TALKS were suspended this week on forming a power-sharing government of national unity, plunging Kenya back into political limbo. Negotiations had been going on for weeks between President Mwai Kibaki and the opposition leader, Raila Odinga, to try to resolve the deadlock after disputed elections on December 27th. But relations between the pair have broken down over the sharing out of cabinet posts. Mr Odinga accused Mr Kibaki's Party of National Unity of “going to extraordinary lengths to monopolise power.” Mr Kibaki, for his part, said Mr Odinga's Orange Democratic Movement was making unreasonable demands and trying to politicise the civil service.

Kenyans and diplomats alike are incredulous. At least 1,000 people were hacked, burned, shot or bludgeoned to death and 300,000 displaced in waves of ethnic cleansing after the election. Some fear this cycle of violence may return. For the first time since February, violent demonstrations by opposition supporters erupted this week in Nairobi's slums, sparked by news of the talks' breakdown.

Most local and foreign election observers agree that, though ballots were stuffed on both sides, Mr Kibaki stole the decisive votes to squeak in for a second presidential term. After a month-long stand-off, pressure from inside and outside Kenya forced Messrs Kibaki and Odinga together. There were smiles and clasped hands, but the shotgun marriage never looked happy. The pair had tried in vain to work together in 2002. There is little trust left between them and none between their cohorts.

The opposition has two main complaints. The first is that Mr Kibaki wants to keep too much executive power for the presidency, including the right to appoint ministers, senior civil servants and the heads of state-owned outfits. Mr Odinga says that goes against the spirit of the deal struck by Kofi Annan, a former UN secretary-general, whereby the opposition was meant to have an equal say. It would also mock Mr Odinga's new office of prime minister, reintroduced for the first time since independence in 1963, at great expense. Mr Odinga thinks Mr Kibaki's people are trying to offer him little more than a sinecure that would give him a lot of pomp and security, as well as two deputies, but only a “supervisory” role in government.

The second opposition complaint is that Mr Kibaki's party has kept too many of the beefiest ministries for itself. The opposition hoped that having ceded finance and other key ministries, they would get energy, local government and foreign affairs. But Mr Kibaki is holding out for these too. The European Union and the United States appear to be tacitly backing the opposition on this by calling for “real” power-sharing. Condoleezza Rice, the American secretary of state, telephoned both men on April 7th and urged them to make a deal.

The losers are the Kenyan people. Some 200,000 are still in tented camps, feeling abandoned in the bickering. It is not clear where or if they will be properly rehoused. Anti-corruption campaigners are gloomy too. Even if a cabinet is agreed on, they say, it may lack oversight and turn into an “all-you-can-eat buffet”, as one calls it, with ministers rewarding themselves with the usual dodgy deals. Mr Odinga's Oranges have tried to curry favour with the public by calling for a trimmed-down cabinet, but seem to have been just as complicit in drawing up a bloated list of 40 ministries that was close to being agreed upon. As for promoting policies to tackle Kenya's manifest ills of poverty, rotten infrastructure and corruption, that seems to have been entirely lost in the political morass.

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America and Africa

Americans go a-wooing

Apr 10th 2008 | MONROVIA
From The Economist print edition

The Pentagon courts governments in Africa, especially where there's oil

IN THE dying days of Charles Taylor's murderous regime in Liberia, the American navy moored off his capital, Monrovia. Some 200-plus marines came ashore to secure the American embassy against trigger-happy rebels and crowds of panicking civilians alike, as the city burned. Five years on, American forces are back, in the shape of an amphibious landing ship 190 metres (600 feet) long and a smaller high-speed catamaran. But this time the troops came ashore to mend roads, renovate schools and health clinics, bring medical supplies and provide free health care. They also took on board 40 soldiers from the new Armed Forces of Liberia (AFL) for training in martial arts and leadership.

Helpful though these efforts are in a dirt-poor country, they were also a public-relations exercise to persuade suspicious African governments to welcome America's planned Africa Command (AFRICOM), with an increased military presence on the continent, before it becomes fully operational in October. Dubbed the Africa Partnership Station, two American navy ships, the *USS Fort McHenry* and the twin-hulled *USS Swift*, are near the end of a six-month cruise that has taken in seven countries in the Gulf of Guinea (Cameroon, Equatorial Guinea, Gabon, Ghana, Liberia, São Tomé and Príncipe, and Senegal) with the aim of improving maritime security as well as winning hearts and minds in this oil-rich region.

This so-called partnership station, enthuses its commander, Commodore John Nowell, is “a case study in the strengths that AFRICOM brings to bear.” It is “multinational, multi-agency, [in] partnerships and relationships.” Another senior navy man says that the new policy requires “a mind shift from ‘We're going to take the beach’ to ‘We're going to deliver supplies to the beach’.” The commodore says that more than 1,200 African troops have now been trained on board the *Fort McHenry* since November, while an array of naval officers from Britain, Cameroon, France, Germany, Ghana and Portugal have taken commanding roles on the ship. “A very NATO model,” says one of them.

All the same, AFRICOM has so far been poorly received on the continent. After it was announced in February 2007, Nigeria, South Africa and a number of regional bodies said they did not want a bigger American military presence in Africa, fearing that AFRICOM might challenge their own security forces. Some Africans talked glumly of American-Africa relations being militarised. They note that it was Donald Rumsfeld, a hawkish secretary of defence, who first promoted the AFRICOM idea. This hostility has made the Americans shelve plans to build a small headquarters, plus regional offices, in Africa. For now, at least, AFRICOM's headquarters will stay in Europe. On a recent tour of Africa, President George Bush repeatedly denied that America wanted military bases there.

In any event, America's attitude has changed sharply since a Pentagon report in 1995 said that Africa was of “very little traditional strategic interest”. The administration has so far spent $127m on AFRICOM and has asked for another $389m for 2009. America's key interests in Africa remain terrorism and oil. Terrorists linked to al-Qaeda attacked the American embassies in Kenya and Tanzania in 1998, killing more than 200 people. America gets more than 15% of its oil from Africa, and the figure is rising. It also worries about China's growing influence there.

“We wouldn't be here if it wasn't in [American] interests,” acknowledges Commodore Nowell. Despite the talk of soft power and the much-vaunted humanitarian aspect of the naval presence in the Gulf of Guinea, the real emphasis is still on security. It is plainly in America's interest to help African navies and armies to stop thefts of crude oil, illegal fishing and immigration, drug trafficking and piracy. All these hurt local economies, undermine political stability and threaten to turn poor countries into failed states, such as Somalia, that may breed terrorism.

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Egypt

Not by bread alone

Apr 10th 2008 | MAHALLA AL-KUBRA
From The Economist print edition

Rumblings of unrest in the most populous Arab country

Get article background

WORKERS straggled towards the gates of the Mahalla spinning works, one of Egypt's biggest textile mills. The prime minister, Ahmed Nazif, had just thanked them in person for not going on strike, and granted them an extra month's wages. But it took no prompting to elicit grumbles. “I don't want a car, I don't want cinemas, I don't want to eat Kentucky chicken,” declared Masoud Hafez, an electrician who has worked in the factory for 28 years, brandishing a monthly pay-slip of 249 Egyptian pounds ($46). “I want bread for my children.”

In this grim town in the flat Nile delta north of Cairo, the state-owned factory's 25,000 workers are the lucky ones. A show-piece for make-work socialism in the 1960s, the mill stopped hiring five years ago. There are few other jobs in the area. Police threats and government promises kept its employees from joining an attempt at a nationwide general strike on April 6th. But they did not stop jobless youths from launching a two-day rampage that left one man dead and turned the town centre into a rubble-strewn encampment for thousands of riot police.

Reuters

Hurry before it runs out

Such unrest is not unknown in the town. But in general Egypt's 77m-plus people are famed for their passivity, and on paper have reason to be placid. Their economy, which grew by 7% last year, is sucking in record foreign investment, particularly from the cash-flush Gulf. Tourism is booming. Sales of new cars have quadrupled in five years. Cairo's suburbs gleam with fancy villas, golf courses and shopping malls.

Yet such gains have yet to reach the poor, the vast majority of Egyptians. Despite subsidies that keep bread and fuel at a fraction of world levels, the cost of other essentials, such as cooking oil, fresh food and building materials, has risen faster than meagre wages. The official annual inflation rate touched 12% in February.

The squeeze has made Egyptians rely more than ever on bread, just when world wheat prices are soaring. The government has raised its subsidy allocation from less than $2 billion last year to $2.5 billion this. But corruption and inefficiency still conspire to make the flat, round loaf, costing five piasters (one American cent), increasingly scarce.

Eleven Egyptians have died in the past two months in incidents related to lengthening bread queues, prompting President Hosni Mubarak to order the army to bake and distribute extra loaves. But after 26-and-a-half years of Mr Mubarak's rule, all of them under an official state of emergency, few Egyptians think that using the security forces in this way is a good idea; increasingly, it is looked upon as part of the problem.

Before elections on April 8th for local councils, for instance, police jailed some 800 members of the Muslim Brotherhood, which, despite an official ban, remains Egypt's most effective opposition. The arrests, along with the administrative disqualification of some Brotherly candidates and a decision to ignore court orders for others to be reinstated, left just 20 Brothers in the field out of some 5,000 candidates that the group had hoped to run for the 52,000 or so local seats. As a result, the Brotherhood, which has long professed a commitment to peaceful change, declared a boycott.

Whether in response to this call or not, very few voters showed up; understandably so, considering that,

for an estimated 90% of seats, members of the ruling National Democratic Party ran unopposed. In many of the others, back-room deals allowed a smattering of candidates from several feeble but legally recognised opposition parties to win. The local councils have little power, but the window-dressing of loyal opponents and the exclusion of the Brothers are still both significant, because a constitutional amendment stipulates that candidates for Egypt's next presidential election must first be endorsed by at least 140 local councillors.

The increasing brazenness of such cheating has soured the mood, at a time when people are already angry about their pinched wallets. Yet the response to the ill-planned call for a general strike was weak. There were calls for the nationwide protest, disseminated via internet chat groups and text messages, to coincide with the stoppage, later cancelled, at Mahalla. Some white-collar unions but none of the leading opposition parties, including the Muslim Brotherhood, endorsed the action. Few people actually stopped working. Yet many, for fear of unrest, chose to put off their errands, keep children home from school or call in sick, leaving the streets of Egypt's big cities eerily empty.

It is hard to predict what would happen if another such a strike were better organised. Police have rounded up several dozen alleged ringleaders of this week's failed action. But enthusiasts have already called for another general strike, on May 4th, Mr Mubarak's 80th birthday.

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America and Israel

Let there be justice for all

Apr 10th 2008 | JERUSALEM
From The Economist print edition

America's Israel lobby scores another questionable victory

ONE of the thorniest questions in an Israeli-Palestinian peace deal, if it ever happens, will be what recompense to give the 4.5m Palestinian refugees and their descendants, of whom only a tiny minority, if any, are likely to be allowed to return to what is now Israel. But now a coalition of Jewish organisations has managed to get a no less thorny problem onto the agenda: compensation for Jews who fled the Arab world.

Some 850,000 Jews were living in Arab countries by the early 20th century but began leaving as Arab attitudes to them soured in the wake of Jewish immigration to Palestine and the later creation of Israel. Often they fled after being attacked or stripped of their property and citizenship. Around 700,000 Palestinians fled or were forced out of Israel at the state's birth. But while most of the Palestinians have remained stateless, living in refugee camps scattered around the Arab world, the Jews all ended up as citizens of Israel and other countries in Europe and the Americas.

Five years of work by Justice for Jews from Arab Countries, a lobby group based in Washington, paid off earlier this month in the form of a resolution passed by America's House of Representatives, which calls on the government to make a policy of insisting on restitution for Jewish refugees as well as Palestinian ones. Though non-binding, the resolution is a big symbolic step for the campaign.

Its advocates claim that putting Jewish restitution on the table is not only a question of justice, but could help solve the Israeli-Palestinian conflict by leading to mutual recognition of the plight of each side's refugees. “Dealing with [both refugee issues] honestly and upfront will increase the odds of a peaceful resolution,” says Jerrold Nadler, a Democrat congressman who was one of the bill's sponsors.

But he also mentioned another goal: to show how Arab leaders, by keeping the Palestinian refugees in misery while the West accepted Jewish ones, have used the Palestinians as pawns to whip up anti-Israel feeling. Though true, it makes this look like little more than an effort to reduce the cost to Israel of a peace deal. Certainly, Palestinians will see it as a way to cancel out any restitution they might get. And to Jewish critics of the campaign it looks like just an attempt to derail the peace process. “To say that there is a Jewish refugee problem is to negate the success of Israel as the refuge for all Jews who choose to live there,” says M.J. Rosenberg of the Israel Policy Forum, a doveish think-tank in Washington.

Mr Rosenberg is optimistic that the resolution, being non-binding, will “disappear from view”. Restitution for Arab Jews is not a hot topic in Israel, where the press largely ignored the congressional vote, though a group of prominent Israelis has started a campaign to publicise the issue. The government is avoiding it for now, for fear of jeopardising the current fragile talks with the Palestinian leadership. In any case, restitution would have to be resolved not with the Palestinians but with Arab countries where Jews used to live; up to now, Israel has not demanded it from countries such as Egypt and Morocco, with which it has long had diplomatic relations.

But the fact that a resolution of doubtful value even to Israel's government, let alone American foreign policy, passed with bipartisan support shows once more the power of the pro-Israel lobby in Washington. The lobby's critics often complain that it represents not Israel but the Israeli right wing. This month a more left-wing Israel lobby group dubbed the “J-Street Project” is due to be launched, based on the premise that unstinting support for Israel's hardliners that exacerbates its confrontations with the Arab world is not actually in Israel's best interests. Whether it can dent the power of the existing lobby on America's Congress remains to be seen.

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European security

Redrawing the MAP in Europe

Apr 10th 2008
From The Economist print edition

Illustration by Peter Schrank

Germany is up, and Russia in. What will America do in eastern Europe?

THE job of NATO used to be straightforward: keep the Americans in, the Germans down and the Russians out. These days things are less certain. A week after the alliance's acrimonious summit in Bucharest, and an inconclusive follow-up meeting between presidents George Bush and Vladimir Putin to discuss anti-missile defences, NATO's future role in Europe's security seems particularly unclear.

The most controversial question for the coming months, even years, will be how far the alliance should expand; in particular whether it should take in Ukraine and Georgia. At NATO's summit in Bucharest, Germany's chancellor, Angela Merkel, led the resistance to an American-led move to grant the two countries the next step to membership—known as the Membership Action Plan (MAP). NATO postponed the issue to a meeting of foreign ministers in December, or perhaps to its 60th anniversary summit in April next year. Or perhaps, given that Mr Bush's successor will still be getting his team in place, a decision may be delayed for much longer.

On one reading of events, this expansion of NATO is a mere formality. Ukraine and Georgia claim to be delighted with the summit communiqué, which said firmly: “These countries will become members of NATO”. Without a date for MAP, however, this promise may mean less than it seems.

The fallout in Ukraine has been limited so far. Only a minority of the public supports NATO membership. That is one reason why the alliance is chary of issuing a firm invitation. The government in Kiev says it will concentrate on making the case for NATO and pushing ahead with the less controversial bid to seek an association agreement with the European Union, which it hopes to secure in September. Ukraine's leaders also still have plenty to do to convince other NATO countries that they both meet the criteria and really want to join the alliance—something that is bound to bring a big political cost in relations with the Kremlin.

Yuri Luzhkov, the mayor of Moscow, said that Russia should punish Ukraine for even trying to join NATO. According to a Russian newspaper report, Mr Putin lost his temper with Mr Bush at a meeting on the final day of the Bucharest summit, telling him: “Do you understand, George, that Ukraine is not even a state.” Claiming that most of Ukraine's territory was “given away” by Russia, Mr Putin supposedly also said that if the country joined NATO it would “cease to exist”. A Kremlin spokesman at the meeting says he did not hear the exchange. Still, intemperate language from Russia may stiffen Ukrainian resolve to move closer to the West.

In Georgia, the authorities complain that Russia is accelerating the “creeping annexation” of Abkhazia and South Ossetia, breakaway regions that maintain an unrecognised independence, backed by the Kremlin. On the day of the summit decision, Mr Putin sent a letter to the secessionist leaders promising that Russia would “further widen and deepen its all-embracing practical co-operation”.

Georgia fears that the price of NATO membership may be the permanent loss of Abkhazia, in particular, from which the 250,000-strong majority ethnic Georgian population fled in 1993. One worry is how Mikheil Saakashvili, the impetuous Georgian president, will handle the Abkhaz issue. Another is the upcoming Georgian parliamentary elections in May, in which Mr Saakashvili's clannish supporters are battling a hot-headed opposition. A fairly-counted poll, and a calm approach to Abkhazia, may help to allay fears in NATO countries, particularly Germany, about Georgia's suitability for membership.

Over to EU?

Indecision in NATO leaves plenty of room for the European Union. But the EU shows little sign so far of wanting to take the lead in the continent's security policy—for example in reaching out to Ukraine. It is still struggling to digest its most recent expansion to Romania and Bulgaria—countries that seem to be going backwards rather than forwards on issues such as the rule of law and organised crime. This week the European Commission reiterated that Bulgaria needs to tackle gangsterism and corruption. Despite 150 assassinations since 2001, nobody has been convicted, nor has any senior Bulgarian official successfully been prosecuted for corruption.

The other big issue is America's planned missile defence bases: ten interceptor rockets in Poland and a radar in the Czech Republic. In its dying months, the Bush administration is keen to settle the issue with Russia, but has so far been unable to do so. It has offered several “transparency” measures—such as a promise not to switch on the system until a threat (from Iran) emerges, and access for Russian liaison officers—to reassure Mr Putin that the missile shield is not an attempt to neutralise Russia's nuclear arsenal.

Russia insists that it wants around-the-clock monitors based at both sites—a demand that causes resentment in countries that 19 years ago were unwilling members of the Soviet-led Warsaw pact. The Czech Republic has reached a deal on hosting the American radar, but Poland is holding out for better terms—especially American help to modernise its armed forces.

America's policy in eastern Europe is running out of steam. Earlier successes, such as expanding NATO to the Baltic states, are now overshadowed by disunity. Some newer NATO members even view Germany as something of a “fifth column” for Russia. Given the uncertainty over what a new American presidency will bring, the outlook for many in Europe's ex-communist states is worrying.

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Balkan politics

All at sea

Apr 10th 2008
From The Economist print edition

The troubles of European integration

FOR the countries of the Balkans, the journey from upheaval and war to European normality is supposed to be a “regatta” with no winners; each country tacks towards the destination (NATO, then European Union membership) at its own pace and with its own political winds. This gentlemanly contest, however, is being buffeted by bad storms since Kosovo's declaration of independence on February 17th, and NATO's summit in Bucharest earlier this month.

The countries of the Balkans have been scattered. Three of them still have a fair wind. Croatia and Albania received invitations to join NATO (and Croatia is negotiating EU accession). Montenegro, which re-elected its president on April 6th, started late but is making progress.

Macedonia too has been a front-runner. But its invitation to NATO was blocked by Greece because of a 17-year dispute over its name. Greece maintains that plain “Macedonia” implies a territorial ambition over its own province of Macedonia. It says the Former Yugoslav Republic of Macedonia (FYROM), as its northern neighbour is known internationally, should call itself something like “Upper” or “New” Macedonia; Greece rejected an eleventh-hour compromise proposal to allow the name “Republic of Macedonia (Skopje)”.

Macedonia is fragile but has made important strides since it avoided all-out war in 2001 between its Macedonian majority and Albanian minority, which makes up about one-quarter of the population. For Macedonia, NATO membership is particularly important because it would guarantee its frontiers in a region where many might be tempted to change them.

There are fears that Greece will carry its obstructionism to the EU, where Macedonia (a candidate since 2005) had been hoping to learn in the coming months when it would begin membership negotiations. Kristof Bender, an analyst with the European Stability Initiative, an influential think-tank in Berlin, says the Greek move means that “European strategy towards the Balkans is in deep trouble at a critical and dangerous moment.” The real message of what happened in Bucharest, says Mr Bender, is that NATO and EU integration is not based on objective criteria and that “every promise can be broken”.

Greek nationalists are not the only problem. Bosnian ones of all stripes have failed for years to strike a deal on police reform demanded by the EU, so their boat to Europe is in the doldrums. A vote in parliament on April 10th could herald a breakthrough, but only until the next row.

Kosovo, meanwhile, is in particular trouble even though the EU itself is trying to steer its boat. Only 18 out of 27 EU members (and only 36 countries in the world) have recognised the new state. Yet an EU justice and police mission is setting itself up to try to take over key functions from the United Nations, and an EU political overlord, Pieter Feith, has started work. But the EU has not established a presence in the Serbian areas that are now, more than ever, run as fully-fledged parts of Serbia, not Kosovo.

As for Serbia itself, opinion polls point to a victory by nationalist parties in general elections on May 11th. Serbia may yet do an about-turn and steer itself resolutely away from Europe.

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Italian politics

Return of the jester

Apr 10th 2008 | ROME
From The Economist print edition

Will the last joke be on Silvio Berlusconi?

AFP

THE biggest risks for Silvio Berlusconi as Italy votes in general elections on April 13th and 14th are of his own creation. For ten weeks after the fall of Romano Prodi's government on January 24th, Italy's tycoon-politician managed to keep his more outrageous quips to himself. With economic indicators rapidly worsening, and Italy this year forecast once more to under-perform the rest of the European Union, few Italians are cheery.

Mr Berlusconi has played it safe and seems likely to become prime minister for the third time in 14 years. His People of Freedom movement was ahead in the polls when the last opinion survey was released on March 28th (Italian law bans publication of polls in the campaign's last fortnight).

Most of Mr Berlusconi's jests have been either silly (the claim that he spoke Latin well enough to have lunch with Julius Caesar) or sexist in a way that did not seem to damage him (his view that right-wing women were better-looking than lefties). But on April 8th, a more sinister side re-emerged when Mr Berlusconi said that state prosecutors, like those who have been chasing him through the courts since the early 1990s, should undergo periodic mental-health checks. His main rival, Walter Veltroni of the centre-left Democratic Party, demanded an assurance of Mr Berlusconi's loyalty to state institutions.

One interpretation—hardly a reassuring one—was that Mr Berlusconi was trying to divert attention from an even more alarming outburst from his ally, Umberto Bossi, the leader of the Northern League. He said his followers might take up arms over what he claimed was an attempt by the centre-left to confuse voters with overly complicated ballot papers. Mr Bossi's rhetorical excesses are legend and are usually discounted, but like Mr Berlusconi's, they send a subliminal message of indifference to Italian laws.

The irony is that the voting slips are, in fact, a product of legislation drafted by one of Mr Bossi's own deputies and pushed through by Mr Berlusconi's last government in 2005. Its author, Roberto Calderoli, unabashedly called it a *porcata*, roughly a “load of rubbish”. It encouraged political fragmentation and, although it allowed a clear majority in the lower house, the Chamber of Deputies, it minimised the chances of a working coalition in the upper house, the Senate. Critics said Mr Berlusconi adopted the system because he knew he would lose the 2006 election, and wanted to undermine his successor.

If so, he succeeded. Mr Prodi's centre-left government struggled for two years with little or no majority. But having turned down an offer from Mr Veltroni to reform the electoral law, Mr Berlusconi, if he wins, could be hoist by his own *porcata* and preside over an equally unstable government.

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Depopulation of eastern Germany

Tearing itself down

Apr 10th 2008 | KÖTHEN
From The Economist print edition

Innovative ways of coping with demographic decline

SOMETHING odd is happening to the cities of eastern Germany. *Plattenbauten*, the soulless prefabricated apartment blocks thrown up by the region's former communist rulers, are being knocked down. Occasionally one will be truncated, shorn of its upper storeys. Older streets are gap-toothed where wreckers have removed abandoned houses. Cityscapes are being pruned, removing dead and dying edifices in the hope of saving the rest.

City planners, normally keen to promote the building of homes, factories and roads, are responding to a double demographic crisis: the collapse of communist-era industry, which sent workers, especially young women, fleeing westwards; and a sharp decline in the birth rate.

Saxony-Anhalt, cradle of the Reformation and of East Germany's chemical industry, lost a fifth of its 2.9m people in the 16 years after Germany's unification in 1990. By 2025 it expects to lose nearly half a million more. In Köthen, where Johann Sebastian Bach composed the Brandenburg Concertos, so many young workers have left that “the population pyramid has become a mushroom”, says Ina Rauer of the town's building department.

The cities of the east no longer imagine they can avoid demographic decline. Instead they seek to manage its consequences, and a few are inventing ways to shrink gracefully. Saxony-Anhalt, which suffered an acute shortage of apartments in communist times, has now destroyed some 45,000 homes with federal help.

The infrastructure that served now-defunct factories and empty apartment blocks must be ripped up too. “Streets cost an unbelievable amount of money,” not to mention water pipes and electric cabling, grumbles Klaus Bekierz, who works for the building department of Dessau, half-an-hour's drive from Köthen. Its population has shrunk by a fifth to 76,000 since the early 1990s. “We can't pay for infrastructure for 100,000 people,” he says.

Urban attrition is frightening those left behind, bringing the threat of blight and crime. Eastern cities are courting industry, but capital is footloose and productive new factories employ hundreds rather than the thousands who once manned East Germany's behemoths. “It's not clear what the recipe for success is,”

says Hans-Joachim Bürkner of Potsdam University.

That may account for the spirit of zany experimentalism that prevails in cities such as Dessau and Köthen. Under the motto “city islands”, Dessau is nudging life and commerce towards “core areas”, which means making a verdant city (which is already three-quarters parkland) even greener.

Traces of Dessau's busier past—a disused tower for smoking sausages or a dairy's chimney now occupied by storks—are being preserved. Parts of the void are being parcelled into “claims” of 400 square metres, which citizens can use free of charge for projects such as growing biomass for fuel. “Where buildings fall, gardens rise,” a hopeful billboard claims.

Köthen is diversifying beyond Bach to Samuel Hahnemann, the father of homeopathy. The house where he practised his treatment methods in the 1820s and 1830s still stands as a museum. A disused monastery will house a homeopathic library and an eastern German university may soon teach homeopathy in Köthen. Restaurants have already benefited from the extra traffic this attracts, reckons the mayor, Kurt-Jürgen Zander.

Köthen city even employs homeopaths to help provide what it hopes is a more holistic approach to curing the city's ills. On their advice, the municipality sought to prepare the residents of down-at-heel Ludwigstrasse for the demolition of 15 buildings by conducting painstaking interviews to find out how they thought the newly-created space should be used. To provoke a sharper reaction, the city dimmed the street lights, highlighting only the buildings designated for sacrifice. That “was a shock”, says one Ludwigstrasse resident, and it sparked off the dialogue the city fathers wanted.

The façade of things to come

Dessau and Köthen are drawing inspiration from the Internationale Bauausstellung (IBA) 2010, a project dreamt up at the Bauhaus Foundation in Dessau, which occupies the building where Walter Gropius and friends helped pioneer the stark geometrical Bauhaus style in the 1920s.

Such “building exhibitions” are a German tradition, held when social and economic change demands new ways of using space. Omar Akbar, the Bauhaus's director, sees IBA 2010 as a “laboratory” for coping with demographic decline that will one day afflict other cities in the industrialised world. He says the aim is to shape the process of urban contraction, rather than “merely let it happen”.

But IBA 2010 does not just bring cities extra fame and money (around €150m or $235m, largely from the federal and state governments). Its organisers also want to cultivate intangible qualities, like greater public involvement and a sense of distinctive identity for each community.

The town of Aschersleben filled the gaps along its ring road with large attention-grabbing posters (see picture above). And unlike its picturesque neighbours, Stassfurt now has a lake instead of its old city centre; the 15th-century church, town hall and 850 other buildings collapsed or were knocked down because of subsidence, caused by decades of mining to extract potash.

From the death of cities, the hope is that new life will emerge.

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German army

Guts, but no iron

Apr 10th 2008 | STUTTGART
From The Economist print edition

Germans ponder a missing award for gallantry

MANFRED VON RICHTHOFEN, the German first world war flying ace, shot down 80 enemy aircraft and won two Iron Crosses for gallantry. In the week when “The Red Baron”, a new film about him, hits cinemas across Germany, there is fresh agitation to restore a military decoration for bravery.

But where are today's heroes?

More than 60 years after the Nazi horrors of the second world war, Germany is slowly overcoming decades of pacifism. German soldiers deployed first to the Balkans and now to Afghanistan. They stay away from the south, where the hardest fighting against the Taliban takes place. But, as one senior NATO officer put it, “Who would have thought a few years ago that you would have 3,500 German soldiers on the Hindu Kush?”

Twenty-five German soldiers have died in Afghanistan so far. But, however much they distinguish themselves, their country still offers them no award. Germany needs the equivalent of Britain's Victoria Cross or America's Medal of Honor. But what form should it take?

The traditional Iron Cross is tainted by association with the Nazi era. Hitler awarded his version of it—complete with a swastika stamped in its centre—to thousands of those who committed atrocities across Europe. But advocates of the Iron Cross argue that the honour predates the Third Reich by 120 years. It is also a familiar sight on German military vehicles and planes around the world.

A petition to parliament to revive the Iron Cross last year gathered more than 5,000 votes—and some attention from the far right. The Central Council of Jews in Germany objects strongly to its revival. A more gentle approach is being tried by the Association of Military Reservists. Ernst-Reinhard Beck, its chairman, says the important thing is not the Iron Cross, but the principle of a bravery medal to bring German troops into line with the soldiers from other countries serving alongside them.

The government has accepted in principle the need for a gallantry award, but balks at an Iron Cross. Instead officials are working on a proposal that would add a “bravery” category to the bronze, silver and gold levels of the existing *Ehrenzeichen* (badge of honour), which is usually given for long or distinguished service. Defence sources say the idea could be approved by President Horst Köhler by the end of the year. But what would the Red Baron think of it?

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Journalism in France

Pipol power

Apr 10th 2008 | PARIS
From The Economist print edition

A new president (and his new wife) revives the French press

EVEN in France, a country that treasures intellectualism, the daily printed word has been dying a slow death. Between 2000 and 2006, overall sales of newspapers and magazines in France fell 10%, and advertising revenues by 20%; in 2007, circulation of all print media dipped again. Despite government subsidies, many papers are losing money. *Le Monde*, the oracle of the French elite, last week announced the loss of 130 jobs, prompting a call for a strike on April 14th. The paper is on its third editor in nine months, and the group lost €20m ($27m) last year, according to Eric Fottorino, the current one.

Amid this newsroom malaise, however, one sector has been prospering: the weekly news magazines. In 2007, their combined circulation was up 7% on the previous year, according to OJD, the Association for Auditing Media Circulation. Sales of *Le Point*, for example, were up by 8%; those of *Paris-Match* by 9%.

What explains this shift? One answer could be the extra time that the French have at the weekend, thanks to the 35-hour-week rule. Sunday newspapers are thin, so people have been turning to the weeklies—as they have to gardening and DIY—to fill their time. Another explanation is simply that 2007 was an election year, and an unusually captivating one, pitting against each other two candidates with star power, Nicolas Sarkozy and Ségolène Royal.

The French seemed to rediscover an obsessive interest in politics. Voter turn-out in the second round was an astonishing 84%. Some dailies got a boost, with the circulation of the top ten edging up 2% in 2007, reversing years of gentle decline. Patrick Bartement, head of OJD, calls this the “Sarkozy effect”. In 2007, he says, Mr Sarkozy was on no fewer than 257 French news-magazine covers and helped sell an extra 110m copies.

This touches a third explanation: what the French call *peopolisation* or *pipolisation* (derived from the English word “people”, used to mean celebrities). Last year, even the serious papers began to treat political life, and in particular the new president's love life, as a soap opera. A record-beating issue of *L'Express* magazine had a cover story and interview with Carla Bruni-Sarkozy, the president's ex-model new wife, who also fills endless pages in *Paris-Match*. The French, it seems, love glamorous *pipol,* just like everyone else.

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Charlemagne

Danger ahead for the mighty euro

Apr 10th 2008
From The Economist print edition

Illustration by Peter Schrank

Euro-zone economies face external woes and internal tensions

AT THE World Economic Forum in Davos in January 2001, the mood was sombre. The dotcom bubble had burst spectacularly, the Nasdaq stockmarket had crashed, and the American economy was tipping into recession. Yet most continental Europeans were breezily optimistic. The long years of being lectured about their inadequacies by the Anglo-Saxons were over. Europe had wisely skipped the dotcom mania, and its new currency, the euro, was giving the continent a boost. Some Europeans even dreamed of taking over as the motor of the world economy. But it was not to be, as Europe promptly fell into a deeper recession even than America.

Seven years on, the parallels are uncanny. Continental Europe has sensibly avoided America's subprime follies, it is argued. Its banks are in better shape, average euro-area unemployment of 7.1% is the lowest in almost 20 years, the euro is resurgent and, as Joaquín Almunia, the engaging European economics commissioner, insists, there is no sign of a recession. The commission will trim its forecasts later this month, but euro-area growth is likely to stay close to 2% this year. It is true that the European Central Bank (ECB) in Frankfurt has, like America's Federal Reserve, flooded the financial system with liquidity in response to the credit crunch. But unlike the Fed, it has not so far felt the need to bring down interest rates.

Just as in 2001, however, the outlook for the euro area seems to be deteriorating a lot faster than the optimists had expected. After all, the main reason that the ECB has been reluctant to cut rates is not because growth is so robust but because inflation has picked up to 3.5%—the highest in the euro's nine-year existence. Troubles in the region's two biggest export markets—recession in America and slowdown in Britain—are starting to bite. Exports to Asia have been strong, especially from Germany, but in most countries nervous consumers remain reluctant to spend.

And two bigger worries have emerged. The first is the strength of the euro. A weaker dollar is driving an American export boom; a stronger euro is likely to have the opposite effect in Europe. Mr Almunia says the euro is “overvalued” and adds that, although the impact has been moderate so far, “we are at the limits, if not beyond them.” It is a delusion to suppose that euro-area exports can continue to barrel on regardless of their cost.

The second worry is the housing market. Europe may have avoided the American subprime mess, but in several countries house prices have been even bubblier than in America. They are already falling in Spain

and Ireland, and, beyond the euro zone, are starting to do so in Britain. A property bust may not produce an American-style mortgage meltdown, but it will surely topple economies heavily dependent on construction (which accounts for 15% or more of Spanish and Irish GDP, for example).

Indeed, Mr Almunia's home country of Spain appears especially vulnerable. He maintains that Anglo-Saxon commentators are excessively pessimistic about Spain's prospects. But the signs of a sharp slowdown are clear even to the re-elected prime minister, José Luis Rodríguez Zapatero, who has announced a fiscal stimulus to help Spain weather the “turbulence”. Given that Spain has in recent years accounted for a big chunk of euro-zone growth and close to half of all jobs created in the euro area, its slowdown will be widely felt. And not just in economics. It will be a lot harder to sell the EU's ambitious plans to cut CO2 emissions in a faltering economy, for instance.

The political fallout will be felt in other ways too, because of the differential performance of euro-area economies. Mr Almunia admits that France and Italy are a lot weaker than Germany; soon enough, French and Italian leaders (especially if Silvio Berlusconi wins Italy's imminent election) will squeal ever more loudly about the euro's strength, the ECB's rigid monetary policy and, quite possibly, will demand that their industries be protected from “unfair” competition. Such pressure will be resisted by the Germans, who remain comfortable with the euro's strength and always hate criticism of the ECB.

The dark face of success

Even critics of the euro would concede that it has had considerable success, establishing itself in less than a decade as a genuine rival to the dollar as a world currency. But that success disguises two failings. The first is that some countries have adapted a lot better to the discipline of the euro than others. Germany and the Netherlands have cut labour costs and introduced enough reforms to make their economies more competitive. France, Spain and especially Italy have done less—and are suffering more, from both the euro's rise and the global slowdown.

The second failing is an ironic flipside of success. To qualify for the euro in the late 1990s, countries such as Italy and Spain had to make swingeing fiscal and structural adjustments. Yet by shielding weaker countries from a currency crisis, the euro now relieves much of the pressure on them to keep up reforms. In fact, these are more essential than ever now that countries have lost the option of devaluing their currencies to regain competitiveness and offset relatively slow productivity growth. As Mr Almunia sadly concedes, it has proved impossible “to compensate for the lack of market incentives for reform through policy co-ordination and peer pressure”.

In truth, as the euro approaches its tenth birthday celebrations, it is facing the biggest test of its short life. If Europe follows America into recession, which is quite possible, the pain will be a lot greater in the Mediterranean countries than in Germany and northern Europe. Not surprisingly, the political response from the two regions will also be quite different. Even as it prepares to expand once more to take in Slovakia and later other countries from eastern Europe, the euro is about to show the world that it is not yet an optimal currency area—and the demonstration may not be a pretty one.

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Housing market

The bubble bursts

Apr 10th 2008
From The Economist print edition

Reuters

Britain's property boom turns to bust: prepare for a hard landing

HOME renovation would seem to be as exciting a spectacle as, well, watching paint dry. But as Britain neared the peak of a decade-long housing boom, it became prime-time television as producers rushed to make shows like “Property Ladder”. Those happy days in which acquiring a house seemed a sure bet have now ended and even the boost of a quarter-point rate cut from the Bank of England on April 10th is unlikely to bring them back.

Prices, which had been drifting slowly lower over the winter, have started falling more rapidly and dropped 2.5% in March, according to Halifax, part of HBOS and the country's biggest mortgage lender. The biggest monthly drop since September 1992 prompted widespread concerns in a country that still remembers its previous big bust, which started in late 1989 and from which prices did not fully recover for almost a decade.

Mortgage lenders and Labour politicians (see article) have talked down the significance of the drop, arguing correctly that monthly data is volatile and that other indices show a very different picture for the month. The Nationwide Building Society, another large mortgage lender, thinks that prices fell just 0.6% in March. What really matters is the annual rate of growth, which has slowed to 1.1%, the lowest since 1996, according to both lenders.

Worryingly, both estimates may already be out of date. Their data, which show that house prices have fallen about 4% from their peaks, are based on mortgages that are approved by lenders. Yet mortgage approvals capture only a portion of purchases—about a quarter of properties bought each year are paid for in cash—and take place only some weeks after a price is agreed. “The Halifax is behind where we are in the market,” says Marc Goldberg of Hamptons, an estate agent. “The prices we're getting now are about 10% down from the peak last summer.”

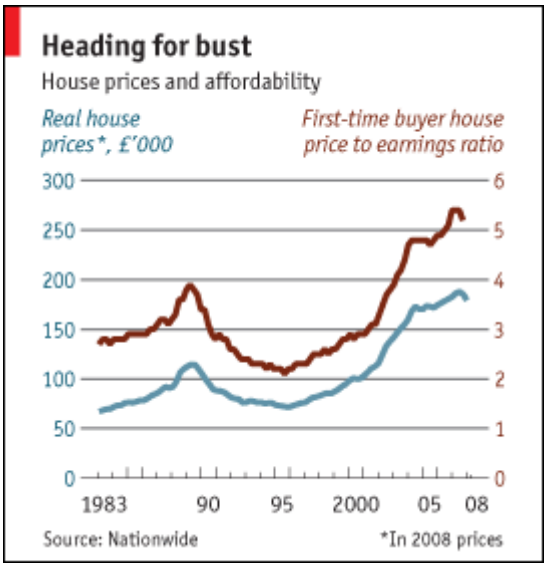
The drop should be set in the context of Britain's long boom in house prices; between the first quarters of 1997 and 2007 the price of an average home increased by 215% according to the Nationwide's index. Most homeowners are sitting on large gains, and have enough equity to shield both themselves and their mortgage lenders from quite a severe downturn. Experian, a credit-scoring firm, reckons that if house prices fell by 20%, only 78,000 households would have mortgages worth more than their homes, a tiny figure set against the almost 12m mortgages.

On the other hand, the big increases may mean that prices have much further to fall. The housing market has, in recent years, sustained much higher valuations than was previously thought possible. Compared with average earnings, homes are more overvalued than at the peak of the previous boom in

the late 1980s (see chart below). They are also high compared with rents, which undermines the argument that the increase in property prices has been driven by low homebuilding rates.

The International Monetary Fund reckons that Britain's house prices are almost 30% higher than can be explained by fundamental factors such as disposable income, interest rates and the size of the working-age population. A crucial reason is that credit has been artificially cheap in recent years because investors have demanded too little return for the risks they have taken on. This has driven down the cost of borrowing and made loans available to many who might otherwise not have been able to borrow.

Datamonitor, a research firm, reckons that borrowers with spotty credit records account for about 7% of outstanding mortgages in Britain, with another 5-6% held by people who did not have to prove what their incomes were. Another 10% are held by landlords, compared with less than 1% a decade ago. Although this has proved a safe form of lending in recent years, no one knows whether people who have invested in houses may be quicker to sell when markets turn down than those who have bought houses to live in.



Turmoil in credit markets has now pushed up the cost of borrowing and forced many lenders to withdraw from the market. The most recognisable of these was hapless Northern Rock, but it is by no means the only one. Almost all lenders specialising in Britain's subprime market had stopped issuing new loans by the end of 2007 because they were no longer able to fund themselves with money raised in the international financial markets.

The number of different sorts of mortgages available to the riskiest borrowers has slumped from more than 9,500 to about 1,300 since August, says George Buckley, an economist at Deutsche Bank. This week Abbey National, part of Spain's Santander banking group, became the final mainstream lender to stop offering mortgages that allowed people to buy homes without deposits. Lenders have been demanding tougher terms and have been especially harsh on customers whose loans exceed 90% of the value of their homes. “We have reached a rare moment when lenders have pricing power and borrowers have none,” says a senior executive at one large lender.

The seismic shift taking place in mortgage markets suggests that the fall in house prices may be both deep and prolonged. Reluctant as mortgage lenders are to talk down the market, even the Halifax and Nationwide expect “modest” declines in house prices this year. But this seems Panglossian, to put it mildly.

One gauge of future house-price expectations is found in the property-derivatives market. In it investors are betting on prices falling by some 10% this year and another 4-5% next year, says David Miles, an economist at Morgan Stanley. That would mean a fall of about 20% in real terms.

Other forward-looking indicators also point to trouble. The Royal Institution of Chartered Surveyors reckons that in February the housing market—judging by the ratio of completed sales to unsold properties—was its weakest since 1996. Estate agents are having to work harder. Charles Peerless, who owns estate agencies near the City and in the West End, areas where prices are holding up relatively well, says each property is being viewed about 12 times before a sale, compared with just four or five viewings a year ago.

The Bank of England's cut in interest rates is unlikely to help the market that much. On recent form mortgage lenders are unlikely to pass on much of this week's rate cut. More important, once people begin to expect lower prices, it is very difficult to reverse a self-fulfilling downward spiral in the housing market. About the only hark-back to the go-go years may be found on television: a new season of “Property Ladder” started this week.

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Princess Diana

Still making headlines

Apr 10th 2008
From The Economist print edition

An official inquest destroys the conspiracy theories

REALITY can be so mundane. On August 31st 1997 Princess Diana, her boyfriend, Dodi al Fayed, and their driver Henri Paul died in a car crash in a Paris underpass. Paul was well over the drink-drive limit. Pursued by the *paparazzi*, he lost control, smashing the car into a concrete pillar.

That, at least, was the verdict of the £10m ($20m), six-month-long official inquest into the deaths, which finished on April 7th. It was, essentially, the same tale that the original French investigation into the crash told when it was published in 1999. But along the way a much more fantastic version has been aired, mainly by Mohamed al Fayed, the owner of the Harrods department store and Dodi's father.

Mr al Fayed has long claimed that Diana was assassinated. During the inquest, he named, among others, Prince Charles (Diana's ex-husband), the Duke of Edinburgh (her father-in-law) and Tony Blair, as well as the British and French intelligence services as the perpetrators of the plot, supposedly carried out to prevent her giving birth to a “Muslim baby”. One witness claimed to have seen sinister “men in black” (stock characters from American conspiracy theories) lurking in the underpass.

On April 9th Mr al Fayed half-admitted defeat, saying that he would not pursue the matter any further, although he hinted that he was still unhappy with the verdict. Nor do mere official explanations seem likely to deter the small but committed band of conspiracy theorists who share Mr al Fayed's views. Martin Parker, an expert in conspiracy theories at the University of Leicester, says that official debunkings often convince believers that something is being hushed up. Some think that Diana will join JFK in the conspiracy-theorist pantheon.

That's unlikely, says Mr Parker. The most durable conspiracies tend to be those that sound the most plausible: the improbably large number of characters and organisations fingered by Mr al Fayed make the Diana plot too baroque for its own good. Yet websites are already filling up with claims that the inquest was rigged—precisely because the judge told the jury that there was no evidence to support claims of a plot.

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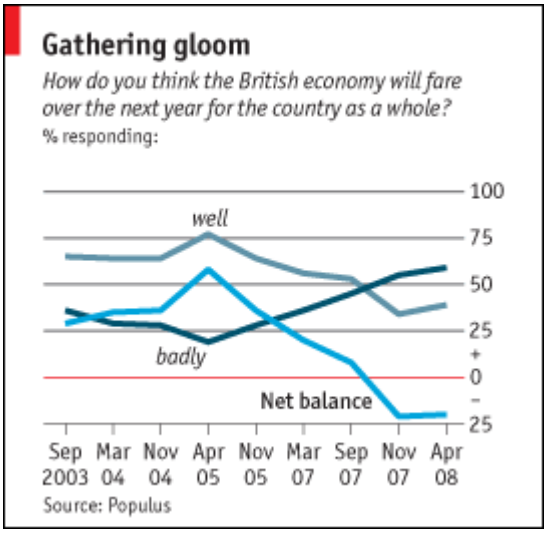
The politics of the downturn

It's the economy again, stupid

Apr 10th 2008
From The Economist print edition

Voters punish the government for a loss of economic grip



NO POLITICIAN who values his career will ever be caught hoping for a recession. Until recently, however, a theory doing the rounds had it that an economic downturn could even benefit the government. Voters feeling vulnerable would opt for stability, and the long-cultivated image of Gordon Brown, the prime minister, as steady and serious would serve as an asset. There was an obvious precedent too: a recession did not stop John Major, another prime minister who made a virtue out of predictability, leading the Conservatives to a fourth term in power in 1992.

But after a series of polls showing support for Labour plummeting, and as bad news about the economy multiplies, few continue to entertain that notion. The Tories, recently scratching their heads as to why they weren't doing better, are scoring double-digit poll leads. A Populus survey released on April 8th shows that 20% more people think that the economy will do badly over the next year than that it will do well: the exact opposite of the situation at Mr Brown's last budget in March 2007 (see chart). During the past decade of steady growth and low inflation, the economy slid down voters' list of concerns. But economic setbacks have seen its salience rise again—which helps to explain why Mr Brown's personal ratings are at their lowest since he became prime minister.

A souring housing market will further perturb voters who have grown accustomed to soaring property values over the past decade. Mr Brown, who in opposition reaped the political benefit of the last property slump, knows how much the issue resonates with British voters. He immediately took to the airwaves after this week's dire house-price figures and promised to help homebuyers.

But Mr Brown's government has already made mistakes in its handling of the economy. Last month's budget failed to capture the mood. Voters who were expecting an acknowledgement that there were tough times ahead instead got overly optimistic growth forecasts. The Treasury's central forecasts that the economy will expand by 2.0% this year and by 2.5% in 2009 are much sunnier than the ones made this week by the IMF, which is predicting growth of just 1.6% each year.

It is difficult to see what Mr Brown can now do to reverse the situation. Evoking memories of the recession of the early 1990s, when millions of households suffered negative equity, was once enough to keep the opposition at bay. But that trope is less effective now. Neither can he count on the Tories over-egging their own response: they appear to have learnt their lesson after their widely criticised call for Alistair Darling, the chancellor of the exchequer, to resign over nationalising Northern Rock. Their reaction to the housing news was sensibly restrained. David Cameron, the Tory leader, is a more credible opponent than Neil Kinnock, the Labour leader defeated by Mr Major in 1992.

Mr Brown's position is not yet irretrievable. For one thing, the Tories have not built an unassailable lead on economic competence (one recent poll has the two parties only level-pegging). Voters are also still as likely to blame banks and the international financial system for the credit crunch as the government. The local and London mayoral elections in May will offer important clues to the mood.

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Defence procurement

Goldplating new armour

Apr 10th 2008
From The Economist print edition

The army should buy off the shelf wherever possible

AP

Old model army

THE muddy tracks and wooded hills of Bovington army camp in Dorset made a fitting field for a contest late last year to supply Britain's biggest purchase of armoured cars and tanks since the second world war. Alongside the relics of nearly a century of tank warfare, bidders put the new generation of armoured vehicles through its paces as they sought to win a contract worth £16 billion ($32 billion). An announcement on the winning bid is expected any day, but what was supposed to mark a new way of buying army equipment quickly and within budget has reverted to more familiar ways.

The army's existing tanks are more than a match for the second-order powers Britain is likely to face. But they are unwieldy for the sorts of far-flung wars it has been fighting in Iraq and Afghanistan. Tanks have to be conveyed by ship, taking weeks to arrive. Once they get there they are clumsy in the narrow streets of ancient cities and intimidating to the locals whose support is needed to fight insurgents.

The army wants instead what it calls euphemistically the “Future Rapid Effects System” (FRES)—as many as 3,000 armoured cars and light tanks that will be whizzed about by air yet still be strong enough to stand up to roadside bombs. But what should have been a relatively simple programme has been plagued by delay and bungling. In 1998 Britain started working with America, spending £131m, before the project folded. A subsequent joint effort with Germany and the Netherlands got nowhere but cost £57m.

In 2007 Lord Drayson, who was then in charge of defence procurement, drew up a shortlist of three vehicles. Two could be bought off the shelf in Europe; the third is still being developed but is based on an armoured car already in service in America. The minister promised to announce the winning bidder by November 2007 in the hope of equipping the army with the vehicles by 2012.

After the trials Lord Drayson is thought to have favoured a vehicle made by Nexter that is already in production and going into service in France. “There was one clear winner and it was French,” says Paul Beaver, a defence analyst. Instead of announcing a winner, however, the minister resigned, and without him, the FRES programme lost momentum. Now the favoured contender is apparently the American design, which is being developed by General Dynamics.

Designing a new vehicle may well result in a better armoured car, but at a cost. A study for the European Parliament in 2006 reckoned that EU states could cut the costs of buying armoured vehicles by 20-30% if they trimmed the number of models being developed—16 compared with just three in America.

For Britain, which prides itself on having invented the tank, buying off the shelf from abroad may seem galling. But the history of British defence procurement suggests that designing new kit will almost

certainly cost more and take longer than expected, a vanity that a stretched budget and hard-pressed army can ill afford.

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School admissions

Playground politics

Apr 10th 2008
From The Economist print edition

A row that says more about ministerial manoeuvring than about schools

"CASH for places", as the newspapers instantly dubbed it, seemed at first like the biggest education scandal in years. In March Ed Balls, the schools secretary, said that hundreds of English schools—perhaps a sixth of the total—were flouting the admissions code introduced a year ago in order to stop them skewing their intakes towards middle-class, easier-to-teach children. Some were even charging hundreds of pounds for places, he revealed, and tens of thousands of children could have been handicapped in the race to secure a good school place.

Soon, though, doubts crept in. Parents conspicuously failed to come forward with stories of chequebook education. The three councils that had been investigated—Barnet, Manchester and Northamptonshire—said their own inquiries were turning up mainly minor breaches. But Mr Balls stood by the claims, and his department insisted it had uncovered a major scandal—such that it had considered scrapping all offers of places and making schools start again from scratch.

In the end, the final report on the matter, published on April 3rd, proved the "cash for places" allegation to be overblown. Five of the six schools asking parents for money were Jewish and relied on voluntary contributions to cover security and religious instruction not paid for by the state. All now accept the need to separate such requests from admissions. And since only 37 of more than 20,000 state schools are Jewish, the problem is hardly widespread.

Some other breaches were trivial: a performing-arts school referred to its auditions (allowed) as interviews (forbidden); a few schools gave priority to children whose siblings attended at the time of application rather than of admission. Most concerned children in care, whom schools should admit before considering other applicants. However, councils insist that this was done, even if schools tripped up over the wording in their admissions documents. Just a few genuinely dubious practices were uncovered, such as giving preference to children whose previous schools vouched for their good behaviour.

The timing of the row was suspicious: Mr Balls made the allegations at the same time as his department published figures showing that a fifth of youngsters transferring to secondary school had missed out on their first choice. The Statistics Commission, an independent watchdog that has since been disbanded, expressed disquiet at the coincidence. And some commentators indeed made the leap from parental dissatisfaction to sinning schools: "Barnet parents will be wondering why their children didn't get into the schools they wanted and they might find their answers here," said one of Barnet's MPs.

But "cash for places" was not just a good way to bury bad news, even if that was a consideration. Some saw an attempt by Mr Balls to jockey for position in a post-Gordon Brown government. He has certainly used words as weapons in the battle being fought in government between Blairites and Brownites. The credibility of the education system and the role of religious schools within it depend on two things, he said: "fair admissions" and "community cohesion". That puts him firmly in the revisionist camp, rewriting the Blairite narrative of choice, diversity and independence, according to which all schools will improve if they face competition. In its place comes a Brownite creed of fairness, which insists that everyone must have exactly the same chance of going to a good school—an opportunity patrolled by tighter policing of admissions.

Cynics hear an echo of the row in 2000 over Laura Spence, a state-school girl rejected by Oxford University in what Mr Brown, then chancellor of the exchequer, called an "absolute scandal" and the outcome of an "old-establishment interview system". That echo was amplified in a speech by John Denham, the universities secretary, on April 8th, in which he said that universities must start to publish their admissions criteria in order to reassure critics of their absolute fairness.

In the end, the legacy of the Great School Admissions Scandal is likely to be more paperwork. Local

authorities will have to write yearly reports for the schools adjudicator, who polices the admissions code. And Jewish parents will have to jump additional hurdles to get their children a religious education. With schools no longer able to suggest that a certificate of marriage in a synagogue is an acceptable way of proving their child's Jewishness (checking whether parents are married is alleged to be a way for schools to keep out the riff-raff), parents will have to ask a religious authority to certify their child's religion (perhaps by providing a marriage certificate from a synagogue) and forward that proof to the school.

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Youth work

Dehooding the hoodies

Apr 10th 2008
From The Economist print edition

Politicians turn their attention to mending social problems. What works?

“WE WERE loud, definitely. But not *that* loud,” says Dawayne Gordon, comparing his bumpy time growing up in south London with the experiences of today's teenagers. Now 34, Mr Gordon works for the same youth charity that put him on the right path after spells in custody as a teenager. The youngsters he helps now may have an even rougher ride. More are under lock and key and those being arrested are getting younger: the number of under-14s convicted or reprimanded for serious offences rose by a quarter between 2003 and 2006. “They're more quick-tempered than we used to be,” Mr Gordon reckons. “People are joining gangs to find belonging and protection. The family model's got mucked up.”

Deep in the Royal Courts of Justice, Nicholas Phillips has reached similar conclusions. The Lord Chief Justice told *The Economist:* “The fundamental point is that children who are brought up by loving parents who are themselves responsible don't very often commit criminal offences...If you analyse those who end up in young-offender institutions and look at their backgrounds, you'll find that they aren't coming from solid family backgrounds and some of them haven't effective parents at all.”

Families, once considered beyond the reach of state meddling, are now the focus of much attention. On April 10th David Cameron, the Tory leader, repeated his party's idea that bolstering families can mend what he calls “broken Britain”. The government, too, has become more willing to get stuck in. Delinquent youths used to be tackled by a Home Office plan called the “respect agenda”, which focused on hammering antisocial behaviour and petty crime. Last July that was superseded by a broader and cosier “youth strategy”, run by the Department for Children and more focused on prevention. One minister puts the shift down to the exit from the cabinet of some “1960s liberals” who felt nervous about intervening in families. The Conservatives' inroads in this area probably have something to do with it too.

The question is what, if anything, can make a difference. Many well-meaning initiatives get nowhere: the UK Drugs Policy Commission has pronounced drugs education fruitless, for example, and more sex education has coincided with an increase in sexually transmitted infections. Schools already groan under a curriculum that covers everything from anti-racism to maintaining a positive body-image.

Many youth programmes fail because they are simply repeating the same information, reckons Neil Wragg, director of Youth At Risk, a charity that runs mentoring programmes for teenagers. “There is far too much sheep-dipping—pushing thousands of young people through the same programmes that give them information that is already available,” he says. Youth at Risk's regime involves an introductory session of several days, followed by weekly check-ups from volunteer mentors for a year. The programme is modelled on the “life coaching” more commonly given to pampered company executives. If that sounds nightmarish, look at the results: two-thirds of the 319 London students who were given the programme last year outperformed their predicted school grades. In Northern Ireland, the same scheme was used to rehabilitate young victims of sectarian violence.

Most governments feel more comfortable spending taxpayers' money on punishing louts rather than counselling them. This may be a mistake given that a year's mentoring costs as little as £500 thanks to the use of volunteers. “There's a belief that there is something missing in communities—not enough people, or resources,” Mr Wragg says. “But it is all there if you look.”

Even so, money is always hard fought over and, in its budgeting, government “tends to respond to the most urgent pressures,” says Lord Phillips. That crowds out the funding needed for the preventative work. “If you're spending almost all your available money on meeting the urgent demand, you say, ‘Terribly sorry, we simply haven't got the resources to deal with this.’ You can, as it were, get away with it. You are dealing with the utmost urgent problems—but at the expense of what's going to happen later.”

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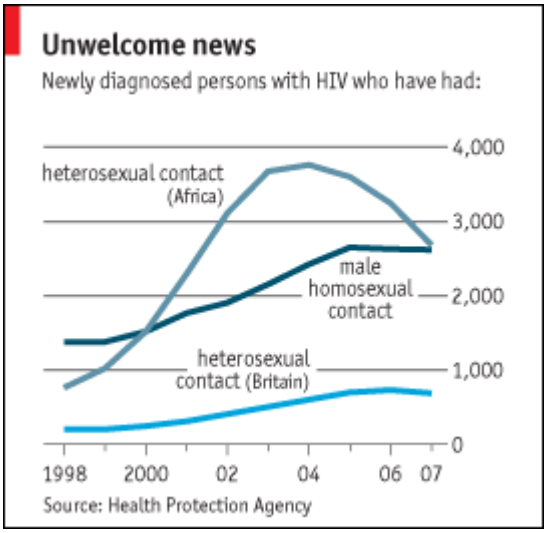
HIV transmission

A modern bugbear

Apr 10th 2008
From The Economist print edition

Using the law to contain infections may do more harm than good



AT FIRST blush the bigwigs at the Health Protection Agency, which monitors diseases, could have told a rosier story. On March 28th they reported that sexual-health clinics diagnosed 8% fewer HIV infections last year than in 2006. But Britain's epidemic is not fading, they insisted. New infections among gay men and straight people are close to all-time highs; falling infections among heterosexuals who caught the virus in Africa account for almost all of the decline (see chart).

There are more ominous trends than these. Britons' understanding of the risks has gradually worsened over the past decade or so. In January a poll by Ipsos MORI found that more than two out of five Londoners do not know that sex between men carries a chance of transmitting HIV. Lately, says Yusef Azad of the National AIDS Trust, a charity, the proportion of gay men having unprotected sex who give blood for a syphilis test but refuse to do so for a HIV test has gone up.

Is this complacency or dread? Mr Azad worries that some gay men may shirk free HIV checks because they fear a positive result could incriminate them in future. Since 2001, 13 people in Britain have been convicted of reckless grievous bodily harm (reckless injury in Scotland) for spreading HIV to their partners. Because recklessness involves taking a known risk, eschewing knowledge of the danger probably averts a court case.

Doctors and campaigning groups such as the National AIDS Trust say that the legal system creates muddled disincentives for public health. One man without a biochemical diagnosis of his status has been convicted after he ignored advice from a clinician and his South African wife that he should get one. But because a court in Liverpool also found him guilty of bigamy and fraud, with all the charges bundled together, his case provides an iffy precedent, if one at all.

The World Health Organisation has branded British police tactics “objectionable” and bemoaned the courts' feeble understanding of virology. Until 2006 prosecutors bedazzled defendants into pleading guilty by waving lab reports of the genetic similarities between the virus in their blood and in their accuser's. Yet such data cannot rule out other possibilities, for example that the accuser really infected the accused or a third party infected both. Sarah Porter, one “AIDS assassin”, as the tabloid press often brands those found guilty, may have been wrongly convicted, reckons Matthew Weait, a law lecturer who has written a book on the criminalisation of HIV transmission.

Chaos might be expected given that the law employed in such cases was written before doctors fully grasped that germs caused contagious diseases. It is also why the Crown Prosecution Service recently provided formal guidance. A policy statement published on March 14th makes clear that genetic data will always form part but never the entirety of case evidence. Moot points remain, such as whether someone who does not tell a partner about having HIV and transmits the virus when a condom splits is reckless.

Using the law to punish reckless disease-transmission runs the danger of doing more harm than good. Tellingly, HIV is the only bug ever to have prompted a criminal conviction in England and Wales. And the sentences so far meted out have been more than twice as long as those for the violent whacking and clobbering involved in other grievous-bodily-harm crimes. Yet living with HIV in Britain is less dangerous than living with hepatitis C, another sexually transmitted virus.

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Bagehot

The impressionists

Apr 10th 2008
From The Economist print edition

Illustration by Steve O'Brien

Why strife in the Labour Party may be disastrous for Gordon Brown

AS HIS henchmen publish their memoirs, one thing becomes increasingly clear about Tony Blair's time in office: he liked doing impressions and funny voices. He did Irish and Japanese; he playfully called for beer and pork scratchings in a Newcastle accent. David Cameron, the leader of the Conservatives, can for his part do a passable Scottish brogue. In fact, his entire strategy can be seen as one big impression—of Mr Blair's stunning turn as opposition leader in the 1990s, when he so successfully reinvented the Labour Party. The act has been missing one key element: the fall guy. Until now.

Mr Cameron's predicament, when he became Tory leader in 2005, was eerily similar to Mr Blair's when he took control of Labour in 1994. Both had to revive parties demoralised by successive election defeats and recently threatened with oblivion. In both instances the parties were divided and introspective, determined not to compromise with the voters and cripplingly distrusted on their economic and fiscal policies.

Studiously emulating his mentor, Mr Cameron has reiterated and reiterated a message of reform and reassurance, long after the political class has tired of hearing it. He, too, has tried to build a winning coalition by running against his base: just as Mr Blair accepted the Thatcherite economic settlement, so Mr Cameron has swallowed the Blairite social one, despite the reactionary instincts of many in his party. Mr Blair's own departure from office has helped: whereas lots of top Tories only pretended to hate him, they are genuinely allergic to his successor, Gordon Brown. That has given them some of the steely discipline of the original New Labour cabal.

The Cameroons have not yet hit on a set of totemic policies—credibly doable yet resonant—to rival the election pledges Mr Blair's team developed (they still have a year, and probably two, to find them). But the most important way in which Mr Cameron's impression has fallen short has been beyond his control. Even after last autumn's non-election fiasco and the multiple embarrassments that followed, Labour under Mr Brown looked a much more formidable opponent than John Major, the tail-end Tory leader who was Mr Blair's hapless foil. But Mr Brown is in grave danger of losing the political asset that has until now made analogies between him and Mr (now Sir John) Major seem far-fetched: the unity and loyalty of his party.

History may repeat itself, but it rarely does so exactly. The similarities between Mr Cameron and Mr Blair have encouraged an overly literal search for parallels among some pundits. They have strained to find a latter-day equivalent to Mr Blair's scrapping of Labour's commitment to nationalised industry, or a cast-

iron economic calamity to match “Black Wednesday” in 1992 (when sterling was forced out of the European exchange rate mechanism). Even after Northern Rock, and with house prices starting to tumble, Mr Brown hasn't quite suffered one. Yet an ongoing revolt among Labour MPs over changes to the tax system may prove to be a Major moment of a subtler kind. Mr Major's government was partly undone by Tory quarrels over Europe; Mr Brown's is beginning to look ominously fractious too.

The tax changes will adversely affect several million people on low-income, and (say some MPs) threaten Labour's vote in the May council elections. The prime minister's team argues that there will be more winners than losers from the new measures; they were anyway announced last year by Mr Brown when he was chancellor of the exchequer, with little resistance at the time. The flimsiness and belatedness of the row, however, are the most important things about it: they imply that the real gripe is with Mr Brown himself. Like other recent eruptions over alcohol duty, embryo research and anti-terror proposals, the episode suggests a cadre of MPs disenchanted with its leader—and worried enough about their own jobs to defy him.

Parliamentary revolts come and go. But this one is apparently matched by unease within government too. Mr Brown's team virulently denies talk of splits inside Number 10, and of rancour in the cabinet itself. It especially denies the rumour put about by a newspaper that Jack Straw, the justice secretary, once talked about punching Ed Balls, the schools secretary. Perhaps such lurid tales are apocryphal; but there has been an undeniable and telling trickle of interviews and editorials, from some government ministers as well as exiled Blairites, that implicitly testify to the unease. They tend to be blandly abstract and euphemistic, rambling airily about a need for new directions and clearer convictions, etc. They are less manifestos than alibis—designed to distance their authors from Mr Brown.

The prime minister still retains a vital advantage that Mr Major lacked: a sizeable parliamentary majority (and while ugly for Labour, the opinion polls are not as dire as they became for the Tories). But the risk is that infighting leaves the government timid and wary of confrontation, nullifying that notional strength.

First time farce, second time farce

On April 4th, at a swish hotel in Hertfordshire, Mr Brown gave a speech. His theme—one about which he has thought deeply and feels passionately—was the need to reform global institutions to meet the 21st-century challenges of climate change, migration, failed states, and so on. He talked cogently and impressively, wowing his audience of international politicians and policy experts with his intellect and even his wit.

If he were, say, a star history professor, he could enjoy that sort of adulation all the time. But Mr Brown is not an academic. The Labour unrest provides more evidence that he may lack the persuasiveness and ruthlessness—the leadership—that his actual job requires. He sometimes seems to be only impersonating a prime minister; because of that, Mr Cameron has almost mastered his impression of Mr Blair.

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India and Africa

When trade winds smell sweet

Apr 10th 2008 | DELHI AND NAIROBI
From The Economist print edition

AFP

A new scramble for Africa means that an old historical relationship is taking on a fresh significance

WITH a munificence that accompanies 9% growth, India recently played host to some South African development experts, who were invited to inspect sanitation and low-cost housing. Alas, their experience—of a country where 700m people lack indoor lavatories and half the biggest city's inhabitants live in slums—did not impress. According to one insider, the South Africans laughed all the way back to the rainbow nation.

But a more serious bid to woo African hearts and minds took place this week. Guests at an inaugural Indian-African summit, complete with an exuberant cultural programme (see picture), included many of the continent's bigwigs, from South Africa's president, Thabo Mbeki, to Ethiopia's prime minister, Meles Zenawi. Even Uganda, whose expulsion of all Asians in 1972 was a low point for Indian-African ties, was volubly present—in the person of President Yoweri Museveni, who has welcomed Indians back.

Thanks to the trade winds that gust across their common ocean, to the delight of merchants and shark fishermen, Africa and India have enjoyed close relations since time immemorial. Islam intensified the link, as did the Portuguese, who colonised both Goa and Africa's coasts. Starting in 1895, the British shipped thousands of Indians to east Africa to build a railway; they became station-masters, artisans, clerks and shopkeepers. India's biggest diaspora, by some counts, is formed by the 1m or so citizens of South Africa who descend from labourers brought over in the 19th century.

But it is not the past which haunts Indian strategists. It is a future dominated, many fear, by competition with India's vast, commodity-hungry and increasingly Afrophile neighbour, China. A decade ago India's two-way trade with Africa was worth more than China's. In recent years, partly thanks to investments in Nigerian oil, the Indian total has surged, to around $25 billion last year. But China's, now topping $55 billion, has grown even faster.

China and India both want access to African natural resources, and both see Africa as an outlet for their manufactures. Of the Asian giants, China's diplomatic profile in Africa is higher, after a series of tours by President Hu Jintao. But India wants to catch up. For example, it is keen to sell Africa its high-tech products, particularly in cheap telephony and mobile internet services. One of the success stories on show in Delhi this week was India's donation to several African countries of tele-education and tele-medical care systems, as well as video-conferencing facilities.

Given that their needs overlap so clearly with China's, the Indians are no less anxious than the Chinese to impress the Africans with their hospitality and charm. Although Indians hate direct comparisons, China hosted an even bigger gathering for African leaders in 2006. (For good measure, a Japanese-African summit will be held in Yokohama in May.)

India is no more squeamish than China about dallying with dictators. It happily does deals with the tyrants of Sudan; one recent contract was for a $200m pipeline linking Khartoum to Port Sudan. Like China, India has refrained from criticising misrule in Zimbabwe.

But India also does good in Africa: it has helped out many UN missions there, with some 9,000 blue helmets now in the field. Over the past five years it has offered lines of concessionary credit to Africa worth $2.5 billion. Now it is talking about a $10 billion investment fund for the continent.

So far India has escaped the abuse heaped on the Chinese for their dealings in the worst-governed bits of Africa. The main reason is that, hitherto, India's transactions have been on a more modest scale. But the free pass may not be valid for long. The human-rights advocates who berate China for complicity in the plight of Sudan's Darfur region are already beginning to turn their attention to India.

In the field of commerce a different set of factors comes into play. When Indian firms have competed in Africa with China's much bigger corporations, they have often lost out. In 2004 India's oil and gas corporation, ONGC, bid $310m for an Angolan oil block; its Chinese rival offered $725m. To hold its own in Nigeria—which accounts for 20% of India's crude-oil imports—ONGC formed an alliance with a Dutch-based compatriot, Mittal Energy.

Yet Indian firms in Africa also have advantages, such as the continent's ethnic Indians, who form a useful bridge. Take east Africa's best-known industrialist, Manu Chandaria, who was born in Kenya nearly 80 years ago to Gujarati parents. “Indians have been dealing with Africa for centuries, and we are here to stay,” says the entrepreneur, whose manufacturing empire ranges from aluminium to software to steel to household utensils. With his easy access to the elites of Africa, India and the other parts of the English-speaking world, Mr Chandaria does not, as yet, have any obvious Chinese equivalent.

The existence of a diaspora also reassures investors in India. “Where we find Indians living, we feel at home,” says Sanjay Kirloskar, chairman of the Kirloskar Group, an Indian firm that is building pumping stations in 25 African countries. As a result, Indian companies tend to be more integrated into the local economy than China's. They employ more Africans than do Chinese firms, who often import workers. Indian firms may thus be less vulnerable to a populist backlash.

As so often with awkward neighbours, India dislikes being mentioned in the same breath as China. And in any discussion of geopolitics and Africa, where China's race for resources tends to be called neo-imperial, any mention of parallels makes India squirm. So the talk at this week's summit was not about resources but about India's contribution to African development. To make it clear that this was not a rerun of the Beijing shindig in 2006, the format in Delhi was as different as possible. For the visitors, though, these distinctions mattered little. Treated to some fine luxury, far from any sanitation project, all they smelt was opportunity.

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Malaria and the politics of disease

One quick shot may not be enough

Apr 10th 2008 | NEW YORK
From The Economist print edition

EPA

A breakthrough moment in awareness of a terrible scourge

IT USUALLY takes a long time to draw the attention of voters and politicians in the rich world to a humanitarian or medical problem whose victims are mostly poor. But every so often, one of those previously neglected issues breaks through to the point where it can no longer be ignored by the rich and powerful.

With AIDS, one pivotal moment came when Senator Jesse Helms, an American arch-conservative who had for years vilified the disease's victims and blocked finance, suddenly admitted he was wrong: he made a dramatic declaration, in 2002, that HIV was a “heart-breaking tragedy” that must be stopped. For the issue of climate change, and the knock-on effects of droughts, crop failures and floods on poor, vulnerable places, a political breakthrough arguably came when Al Gore, who left the American vice-presidency to campaign against global warming, shared the 2007 Nobel peace prize with a panel of climate scientists.

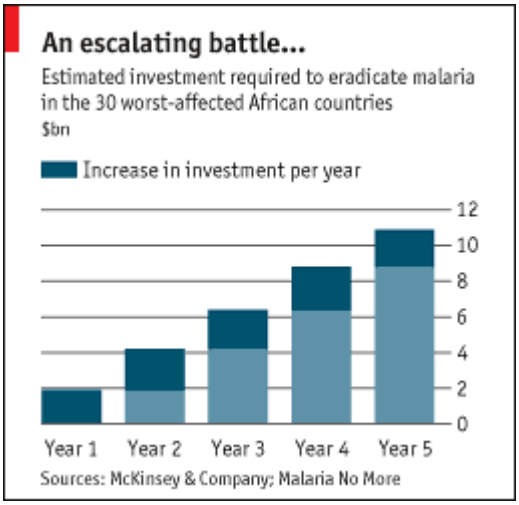
By comparison with such formidable rivals, the momentum behind efforts to tackle malaria, which causes or contributes to several million deaths a year, seems rather feeble. One reason for this is that malaria has no obvious lobby to campaign for it in the corridors of power.

The global AIDS campaign benefited from the influence of gay activists in the rich world who had seen their friends succumb to the disease. In contrast, notes Regina Rabinovich of the Gates Foundation, a giant charity, malaria does its damage not in rich countries but among children in poor rural areas who are “virtually invisible” to the prosperous world. And unlike climate change, which may well offer firms an opportunity to make money by developing technologies for environmentally benign energy, not many companies see profit in fighting malaria.

And yet there is good reason to think that malaria, too, is about to break through and grab the world's attention. After decades of neglect, this disease is nearing the top of the global public-health agenda. President George Bush has helped bring it to prominence by hosting high-profile “summits” of experts, as well as pledging $1.2 billion for malaria control over five years. Some powerful American institutions, from the oil giant ExxonMobil to the National Basketball Association, are giving cash and marketing muscle.

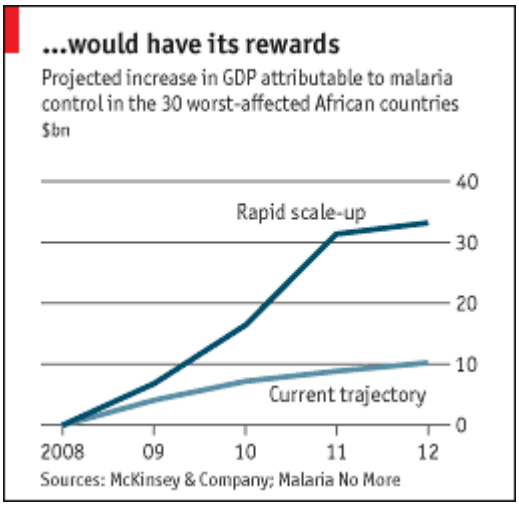
This month the United Nations is expected to announce a plan to expand the world's malaria-control efforts dramatically. Insiders say that with the blessing of some big donor countries, Ban Ki-

moon, the UN secretary-general, is likely to propose a multi-billion dollar effort to reduce the number of malaria deaths to close to zero within five years or so.



Such a control strategy (which is not the same as an eradication strategy to wipe out the parasite, but still an ambitious goal) would build on several recent proposals. One plan, developed by McKinsey, a management consultancy, aims to wipe out deaths from malaria in the 30 worst-hit African countries within five years. In a report prepared for Roll Back Malaria, a broad international coalition created by the World Health Organisation (WHO), the consultants suggest that annual spending of $2.2 billion should be sufficient to do the trick (see charts).

Malaria has even made it to popular television. This week Gordon Brown, Britain's prime minister, said his government would provide Africa with 20m bed nets treated with long-lasting insecticides; he vowed to encourage other big donors to provide perhaps another 100m. Mr Brown—whose stolid manner makes him a rather unlikely television star—also turned up on a special edition of American Idol, a popular variety show, to encourage ordinary people to donate money that would help “fill the bed-net gap”.



Not just made for the cameras

So is this really malaria's political moment—or is it just a brief publicity stunt? Peter Chernin, president of News Corporation, whose Fox network broadcasts the Idol show, rejects such talk as unjustified cynicism. Raising awareness is an essential weapon against a global scourge like malaria, he insists, and he applauds Mr Brown for using his political clout to save lives. Mr Chernin says he got involved with the malaria issue in order to “bring a private-sector sense of urgency to this solvable problem.”

“Our collective will is stronger now than at any time in the past,” adds Ray Chambers, a respected Wall Street pioneer who has been named as the special envoy for malaria by the UN's Mr Ban. One reason for today's push, he insists, is that it is increasingly clear that the broader Millennium Development Goals set out by the UN are being stalled by malaria. In Africa alone, malaria is thought to cost $12 billion a year, through its direct impact on health and through lost productivity.

Jeffrey Sachs of Columbia University in New York, an economist and enthusiastic advocate of more-effective action against malaria, is now convinced that a political tipping-point has come. He believes that millions of lives could have been saved had the world acted earlier. But Mr Sachs is confident that the political support for stepping up the fight against the disease has strengthened, in part thanks to the latest scientific advances.

After some dramatic successes in Rwanda, Zanzibar and elsewhere, a clear consensus is emerging: an ambitious strategy involving nets impregnated with long-lasting insecticide, indoor spraying of insecticides and pills using artemisinin-combination therapies can slash mortality.

Normally, Arata Kochi, the head of malaria at the WHO, can be counted upon to enter almost any health debate as a sharp-tongued sceptic. In the past he has even denounced his own agency's malaria efforts

as “a complete disaster”.

And yet, ask Dr Kochi about the UN-led bandwagon which is apparently rolling towards a huge expansion of control strategies, and he positively cheers. The reason everyone is getting ready to bet big on malaria, he thinks, is that it is becoming clear that investments in this disease are likely to pay dividends quickly. From this point of view, “malaria is a winning horse.” One reason for this, argues Wendy Woods of the Boston Consulting Group, another management consultancy working on the issue, is that while eradicating malaria may be incredibly hard, controlling it is easier than tackling HIV or tuberculosis.

Another reason for the new enthusiasm is the growing awareness of the advantages of scale. Dr Rabinovich of the Gates Foundation believes that wider distribution of bed nets can help secure “herd immunity” through knock-on benefits. The insecticide-infused net protects not only those sleeping under it, but also the neighbour without a net because the insecticide kills mosquitoes that might otherwise fly over to the next hut and spread the infection. According to the McKinsey report, expanding malaria efforts, as it recommends, would double the number of lives saved per dollar spent.

So the end is nigh for malaria—or is it? Unfortunately not. In fact, there is even some reason to worry that the ambitious strategies announced this year may, just possibly, leave the poorest even worse off in future. That is precisely what happened the last time international agencies, donors and charities got really excited about quashing malaria.

Half a century ago, the WHO led a campaign for the total eradication of malaria. Many countries made great progress in reducing malaria deaths. But that very success led to donor funds drying up and local attention waning. The schemes fell apart in places, leading to nasty resurgences. The reason? When malaria is brought under temporary control in an area, young people lack the need or opportunity to develop immunity to it. If control strategies are well financed and sustained, or if the disease really is eradicated, then all is well and good. However, if control policies are later abandoned, the disease comes storming back to a population which has become even more vulnerable.

A lesson in tragedy

Sri Lanka is one horrific example. More than 10,000 people a year now contract the disease on an island where, several decades ago, the scourge had almost been wiped out. The lesson from such countries is that the final phase of a fight against malaria promises to be very long and costly. Indeed, the McKinsey researchers estimate that once their proposed five-year spending surge is completed, expenditure will have to continue at nearly the same level ($1.8 billion a year) for an indefinite period, or until some scientific breakthrough makes eradication more realistic.

Will today's well-intentioned efforts fail at the last fence too? Mr Chernin responds defensively: “I would prefer the challenge that comes with success to the ones arising from failure and inaction.” That is a fair point, but the television boss acknowledges that campaigners must not simply declare victory and move on. Mr Chambers, the UN envoy, agrees that there is a risk of a storming start which then peters out: “We must be careful to sustain funding or we'll have another Sri Lanka.”

The coming weeks may indeed prove to be malaria's political moment, and that is surely a good thing, given the number of lives that even short-term measures can save. But avoiding the risk of backsliding (or indeed wiping out the disease altogether) is going to take a great deal more than one glamorous burst of publicity. The closing moments in the campaign may well be much harder-going, politically as in other ways, than the spectacular opening ones.

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Nomads at last

Apr 10th 2008
From The Economist print edition

Illustration by Bell Mellor

Wireless communication is changing the way people work, live, love and relate to places—and each other, says Andreas Kluth (interviewed here)

AT THE Nomad Café in Oakland, California, Tia Katrina Canlas, a law student at the nearby university in Berkeley, places her double Americano next to her mobile phone and iPod, opens her MacBook laptop computer and logs on to the café's wireless internet connection to study for her class on the legal treatment of sexual orientation. She is a regular here but doesn't usually bring cash, so her credit-card statement reads “Nomad, Nomad, Nomad, Nomad”. That says it all, she thinks. Permanently connected, she communicates by text, photo, video or voice throughout the day with her friends and family, and does her “work stuff” at the same time. She roams around town, but often alights at oases that cater to nomads.

Christopher Waters, the owner, opened the Nomad Café in 2003, just as Wi-Fi “hotspots” were mushrooming all around town. His idea was to provide a watering-hole for “techno-Bedouins” such as himself, he says. Since Bedouins, whether in Arabian deserts or American suburbs, are inherently tribal and social creatures, he understood from the outset that a good oasis has to do more than provide Wi-Fi; it must also become a new—or very old—kind of gathering place. He thought of calling his café the “Gypsy Spirit Mission”, which also captures the theme of mobility, but settled for the simpler Nomad.

As a word, vision and goal, modern urban nomadism has had the mixed blessing of a premature debut. In the 1960s and 70s Herbert Marshall McLuhan, the most influential media and communications theorist ever, pictured nomads zipping around at great speed, using facilities on the road and all but dispensing with their homes. In the 1980s Jacques Attali, a French economist who was advising president François Mitterrand at the time, used the term to predict an age when rich and uprooted elites would jet around the world in search of fun and opportunity, and poor but equally uprooted workers would migrate in search of a living. In the 1990s Tsugio Makimoto and David Manners jointly wrote the first book with “digital nomad” in the title, adding the bewildering possibilities of the latest gadgets to the vision.

But all of those early depictions and predictions of nomadism arguably missed the point. The mobile lifestyles currently taking shape around the world are nothing like those described in the old books. For this the authors cannot be blamed, since the underlying technologies of genuine and everyday nomadism did not exist even as recently as a decade ago. Mobile phones were already widespread, but they were used almost exclusively for voice calls and were fiendishly hard to connect to the internet and even to computers. Laptop computers and personal digital assistants (PDAs) needed fiddly cables to get online, and even then did so at a snail's pace. Reading and sending e-mail on a mobile phone—not to mention synchronising it across several gadgets and computers to create one “virtual” in-box—was unheard of. People took photos using film. There was no Wi-Fi. In short, there were gadgets, but precious little

“connectivity”.

Astronauts and hermit crabs

Without that missing piece, several misunderstandings took hold that now require correcting. One had to do with all those gadgets. The old mental picture of a nomad invariably had him—mostly him, at that time—lugging lots of them. Since these machines, large and small, were portable, people assumed that they also made their owners mobile. Not so. The proper metaphor for somebody who carries portable but unwieldy and cumbersome infrastructure is that of an astronaut rather than a nomad, says Paul Saffo, a trend-watcher in Silicon Valley. Astronauts must bring what they need, including oxygen, because they cannot rely on their environment to provide it. They are both defined and limited by their gear and supplies.

Around the turn of the century, as some astronauts, typically executive road warriors, got smarter about packing light, says Mr Saffo, they graduated to an intermediate stage, becoming hermit crabs. These are crustaceans that survive by dragging around a cast-off mollusc shell for protection and shelter. In the metaphorical sense, the shell might be a “carry-on” bag on wheels, stuffed full of cables, discs, dongles, batteries, plugs and paper documents (just in case of disc failure). These hermit crabs strike fear into the hearts of seated airline passengers whenever they board, because their shells invariably bang into innocent shins all the way to their seat. They carry less than astronauts—and are thus more mobile—but are still quite heavily laden with gear, mostly as a safeguard against disasters.

Urban nomads have started appearing only in the past few years. Like their antecedents in the desert, they are defined not by what they carry but by what they leave behind, knowing that the environment will provide it. Thus, Bedouins do not carry their own water, because they know where the oases are. Modern nomads carry almost no paper because they access their documents on their laptop computers, mobile phones or online. Increasingly, they don't even bring laptops. Many engineers at Google, the leading internet company and a magnet for nomads, travel with only a BlackBerry, iPhone or other “smart phone”. If ever the need arises for a large keyboard and some earnest typing, they sit down in front of the nearest available computer anywhere in the world, open its web browser and access all their documents online.

Another big misunderstanding of previous decades was to confuse nomadism with migration or travel. As the costs of (stationary) telecommunications plummeted, it became fascinating to contemplate “the death of distance” (the title of a book written by Frances Cairncross, then on the staff of *The Economist*). And since the early mobile phones were aimed largely at business executives, it was assumed that nomadism was about corporate travel in particular. And indeed many nomads are frequent flyers, for example, which is why airlines such as JetBlue, American Airlines and Continental Airlines are now introducing in-flight Wi-Fi. But although nomadism and travel can coincide, they need not.

Humans have always migrated and travelled, without necessarily living nomadic lives. The nomadism now emerging is different from, and involves much more than, merely making journeys. A modern nomad is as likely to be a teenager in Oslo, Tokyo or suburban America as a jet-setting chief executive. He or she may never have left his or her city, stepped into an aeroplane or changed address. Indeed, how far he moves is completely irrelevant. Even if an urban nomad confines himself to a small perimeter, he nonetheless has a new and surprisingly different relationship to time, to place and to other people. “Permanent connectivity, not motion, is the critical thing,” says Manuel Castells, a sociologist at the Annenberg School for Communication, a part of the University of Southern California, Los Angeles.

This is why a new breed of observers is now joining the ever-present futurists and gadget geeks in studying the consequences of this technology. Sociologists in particular are trying to figure out how mobile communications are changing interactions between people. Nomadism, most believe, tends to bring people who are already close, such as family members, even closer. But it may do so at the expense of their attentiveness towards strangers encountered physically (rather than virtually) in daily life. That has implications for society at large.

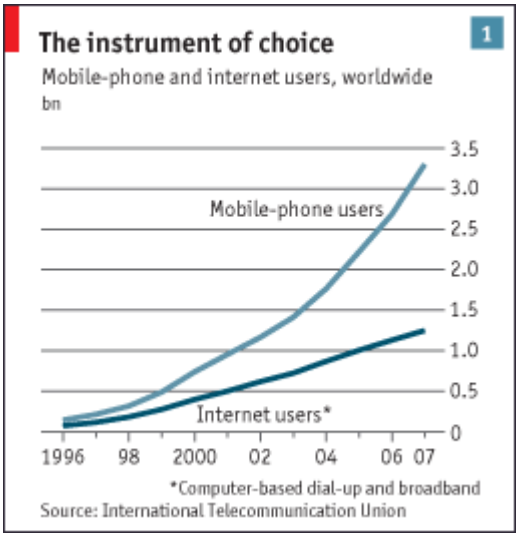
Anthropologists and psychologists are investigating how mobile and virtual interaction spices up or challenges physical and offline chemistry, and whether it makes young people in particular more autonomous or more dependent. Architects, property developers and urban planners are changing their thinking about buildings and cities to accommodate the new habits of the nomads that dwell in them. Activists are trying to piggyback on the ubiquity of nomadic tools to improve the world, even as they worry about the same tools in the hands of the malicious. Linguists are chronicling how nomadic

communication changes language itself, and thus thought.

Beyond technology

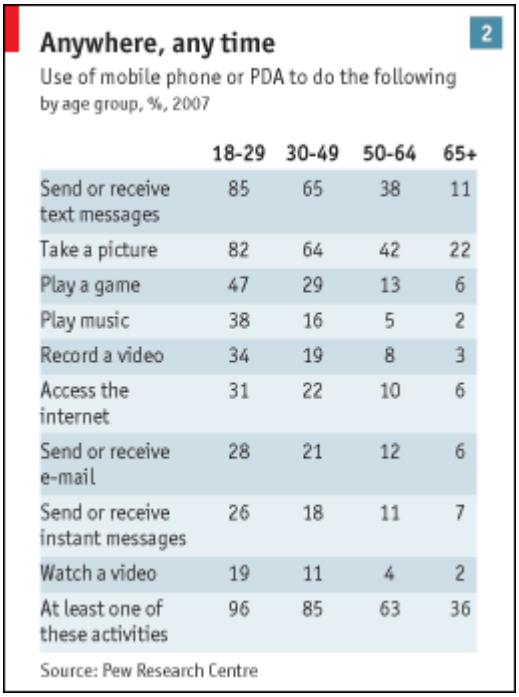
This special report, in presupposing that a wireless world will soon be upon us, will explore these ramifications of mobile technology, rather than the technologies themselves or their business models. But it is worth making clear that technology underlies all of the changes in today's nomadic societies, so that its march will accelerate them. Wireless data connections, in particular, seem to be getting better all the time. Cellular networks will become faster and more reliable. Short-range Wi-Fi hotspots are popping up in ever more places. And a new generation of wireless technologies is already poised to take over. Regulators have grasped that the airwaves are now among society's most important assets. America, for instance, has just auctioned off a chunk of spectrum with new rules that require the owner to allow any kind of device and software to run on the resulting network.

Devices, too, are on a steep trajectory. Just as Sony's Walkman once planted the notion that music can be mobile, the BlackBerry by Research In Motion (RIM), a Canadian firm, has since 1999 made e-mail on the go seem normal. And just as the personal-computer era entered the mainstream only in the 1980s with Apple's commercialisation of the “graphical user interface”, the mobile era arguably began only last summer when the same firm launched the iPhone, with its radically new and user-friendly touch interface. As a result, Google, for instance, has received 50 times more web-search requests from iPhones this year than from any other mobile handset.



Cumulatively, all of these changes amount to a historic merger, at long last, of two technologies that have already proved revolutionary in their own right. The mobile phone has changed the world by becoming ubiquitous in rich and poor countries alike. The internet has mostly touched rich countries, and rich people in poor countries, but has already changed the way people shop, bank, listen to music, read news and socialise. Now the mobile phone is on course to replace the PC as the primary device for getting online. According to the International Telecommunication Union, 3.3 billion people, more than half the world's population, now subscribe to a mobile-phone service (see chart 1), so the internet at last looks set to change the whole world.

To people in early-adopter countries such as South Korea and Japan this will come as no surprise. (Five of the ten bestselling novels in Japan last year were written on mobile phones.) Nor will it come as a shock to people in their teens and twenties elsewhere who have never known life without text messages; or to itinerant salesmen and executives who have for years been glued to their BlackBerries day and night. By contrast, many older people will strain to recognise themselves in the behaviour patterns described in this report, and indeed may never adopt them. But the lesson of history is that what the geeks and early adopters do today, the rest of us will probably end up doing tomorrow or the day after. It is the pioneers that set the direction; the mainstream will follow in time.


Anywhere, any time
2
Use of mobile phone or PDA to do the following
by age group, %, 2007
18-29 30-49 50-64 65+
Send or receive text messages 85 65 38 11
Take a picture 82 64 42 22
Play a game 47 29 13 6
Play music 38 16 5 2
Record a video 34 19 8 3
Access the internet 31 22 10 6
Send or receive e-mail 28 21 12 6
Send or receive instant messages 26 18 11 7
Watch a video 19 11 4 2
At least one of these activities 96 85 63 36
Source: Pew Research Centre

The most wonderful thing about mobile technology today is that consumers can increasingly forget about how it works and simply take advantage of it. As Ms Canlas sips her Americano and dives into her e-mail in-box at the Nomad Café, she gives no thought to the specifications and standards that make her connection possible. It is the human connections that now take over. Since humans, as Sigmund Freud put it, must *arbeiten und lieben*, work and love, in order to find fulfilment, this report will start off by examining how they will work.

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Labour movement

Apr 10th 2008
From The Economist print edition

Illustration by Bell Mellor

The joys and drawbacks of being able to work from anywhere

THREE years ago Pip Coburn left his job as an analyst at UBS, a global bank, in order to start his own investment consultancy, Coburn Ventures. At his first staff meeting, in a Manhattan café, he and his five colleagues drew up their to-do list. The most urgent item, everybody agreed, was to get BlackBerries. Then they needed to start contacting clients. And at some point they should probably find some office space, ideally in the chic area around New York's Union Square.

Within three days they had their BlackBerries and were pitching their offerings to fund managers. That went well and kept everybody busy. All six were roaming around the city and country, working from wherever they pleased and meeting clients either virtually—via e-mail, phone or instant messaging—or physically wherever the clients preferred. “No client ever even asked me whether we had an office,” says Mr Coburn, “so the office space never rose to the top of the agenda.”

Eight months later, with seven employees now, Mr Coburn brought up the issue again, at another breakfast meeting in a café. He asked if anybody still wanted an office at all. One thirtysomething woman, with two kids and a nanny at home, felt that she might like a quiet office as an option. But the others—all in their 30s except for two fortysomethings, including Mr Coburn—were now against it. “We had learned to love the freedom and autonomy,” says Mr Coburn. So Coburn Ventures remains a “virtual firm”.

That changes the way its employees live. While at UBS, Mr Coburn got up at precisely 5.08am on weekdays in order to catch a commuter train into Manhattan that would allow him to be at his cubicle by 6.45 and in a conference room at 7.00. “I never saw my kids in the morning,” he recalls. Now he wakes up at 6.15, does half an hour of yoga, kisses his three children and then turns on his BlackBerry. Usually he works at home or in cafés with Wi-Fi in his suburb of Westchester. When he goes into Manhattan, it is for specific meetings and at off-peak times. He also works from his second home in Maine and uses the five-hour drive for “wonderful, free conversations” on his earpiece.

Nomadism works, he says, because everybody on his team is “conscientious and self-motivated”. But it did take some adjusting. At first the team's communications became more “transactional”—efficient but impersonal. Once a terse e-mail led to an awkward misunderstanding. And without the proverbial water cooler, there was “no space for casual serendipity”, says Mr Coburn. But these drawbacks were easy to fix. His team now gets together regularly for fun, as if they were a clique of college friends. The group has become closer than any he has ever been part of, says Mr Coburn, and everybody has a “deeper connection to the organisation”.

James Ware, a co-founder of the Work Design Collaborative, a small think-tank, says that nomadic work styles are fast becoming the norm for “knowledge workers”. His research shows that in America such

people spend less than a third of their working time in traditional corporate offices, about a third in their home offices and the remaining third working from “third places” such as cafés, public libraries or parks. And it is not only the young and digitally savvy. At 64, Mr Ware considers himself a nomad, and accesses the files on his home computer from wherever he happens to be.

Today's work nomadism descends from, but otherwise bears little resemblance to, the older model of “telecommuting”, says Mr Ware. That earlier concept became popular in the 1990s thanks to cheap but stationary telecommunications technologies—the landline phone, the fax and dial-up internet. Because it still tied workers to a place—the home office—telecommuting implicitly had people “cocooning at home five days a week”, he says. But people do not want that: instead, they want to mingle with others and to collaborate, though not necessarily under fluorescent lights in a cubicle farm an hour's drive from their homes. The crucial difference between telecommuting and nomadism, he says, is that nomadism combines the autonomy of telecommuting with the mobility that allows a gregarious and flexible work style.

This new model of nomadic work has become technologically feasible only very recently. Mike Lazaridis, the founder of Research In Motion and inventor of the BlackBerry, the firm's main product, says that his device “freed you from your desk” just when globalisation seemed to require many office workers to put in 24 hours, seven days a week. “The BlackBerry didn't cause globalisation, but it helps you manage the reality of it. We wanted you to have a life,” he says.

Wi-Fi hotspots have been equally crucial, as have many relatively obscure innovations, such as IMAP, the “internet message access protocol”. It synchronises e-mail across mobile phones, computers and web mail so that the user encounters the same in-box no matter which device he uses. PDF, the “portable-document format”, became a universal standard for producing, sharing and archiving anything that used to require paper. “Cloud computing” increasingly lets people keep their documents online rather than on one particular computer.

Office politics

With the old technological hassles thus mostly conquered, the new questions tend to be sociological. Wes Boyd has worked nomadically for the entire decade since he co-founded MoveOn.org, a leftish organisation for political activism in America, and attributes his “great family life” to this style of work. But as MoveOn.org grew to about 20 staff, thousands of consultants and millions of volunteers, he also realised that “there can't be any clumps of people in physical offices” because they might turn into cliques or “power centres”. In an effective organisation, “there mustn't be insiders and outsiders,” he says. So he made it a rule that no two people anywhere may share a physical office.

Instead, all of his colleagues are “virtually co-present” throughout the day, says Mr Boyd, pointing to the instant-messaging “buddy list” on his computer screen, which shows who is available and who would rather not be disturbed. Instead of wasting time in pointless physical meetings, he gets most issues resolved with constant and quick electronic communications, arranged ad hoc rather than scheduled in advance. As a result his staff are more “purpose-driven” and less obsessed with relationships, which improves the quality of their work, he says.

Conflicts arise only when both models, the old culture and the new, collide or overlap, he says. This usually happens in Washington, DC, where Mr Boyd has a lot of business. In the government bureaucracies he visits, workers still have assistants who “structure their time” so that it can take a week to arrange a meeting to resolve a mundane detail. Yet these same workers are now also expected to do “ad-hoc flexible scheduling”, which tears them apart. “In physical meetings, they are the ones looking at their BlackBerries under the table,” says Mr Boyd.

Larger organisations often do not have the option of dispensing with offices entirely, as Coburn Ventures and MoveOn did. So they need to manage a mixed system of work cultures. At Sun Microsystems, a company that makes hardware and software for corporate datacentres, more than half of the workforce is now officially nomadic, as part of a programme called “open work” in which employees have no dedicated desk but work from any that is available (called “hotdesking”), or do not come into the office at all.

That has not, however, created the coteries that Mr Boyd fears. “It's naive to think that the physical infrastructure has anything to do with power,” says Jonathan Schwartz, Sun's chief executive. His experience with nomadism is entirely positive. Sun's workers love the flexibility, stay with the firm longer

and are more productive.

Mr Schwartz himself leads by example. He usually carries only his BlackBerry and works from “anywhere that has Wi-Fi”. He has an assistant who manages his diary (“she recently put her foot down and has forbidden me to modify what she puts in”) so that “150% of my time is structured.” The difference is that he now rarely sees her, and that the venues for his scheduled meetings are flexible. He conducts many on Skype, a free internet-telephone service, or in person at cafés. “Time provides the structure, location takes care of itself,” he says. He is now planning to get rid of his physical office entirely; Sun's top lawyer has already done so.

Mr Schwartz, like Messrs Boyd and Coburn, has also noticed that he is having fewer “flesh meetings”. This runs counter to the conventional wisdom of the past few decades, which held that improvements in telecommunications always lead to more physical travel, rather than less. Mr Schwartz used to spend two weeks a month travelling to meet customers; that has come down to less than one week a month. With more than 100,000 customers, he finds that he communicates far more efficiently through his blog, which is translated into ten languages and “on a good day reaches 50,000 people.” When he travels, it is now largely for cultural reasons—his Asian customers, in particular, still find physical meetings reassuring. But in general he finds that “face-to-face is overrated; I care more about the frequency and fidelity of the communication.”

Still, nomadic work requires other big adjustments in the culture of an organisation and the behaviour of its individuals, says Mr Ware of the Work Design Collaborative. He finds that older and more traditional supervisors usually oppose the idea because they fear that they cannot manage people whom they cannot see. With time, they usually change their minds, says Mr Ware; but this requires “management by objectives rather than face time”. Not all workers thrive in such a culture; some prefer the structure of the traditional office. But “anyone who did well at college can work well this way,” he thinks. “The prof said 'paper by Friday' but didn't care where you did it; it's the same now.”

Death of a road warrior

The bigger problem is stress. Nomadic work means more autonomy, but “anybody who works for himself has a tyrant as a boss,” says Paul Saffo, the Silicon Valley trend-watcher. “The danger is that the anytime, anyplace office will lure us into the tiger cage that is the everytime, everyplace office.” BlackBerries and their kin have already caused marital problems for many couples, who must negotiate whether the gadget is allowed, say, in the bedroom or on the beach while on holiday. Severe addicts pretend to go to the lavatory at home just to check their e-mail. An office worker's day used to stop when he left the office. When does a nomad's working day stop?

James Katz, a professor at Rutgers University who leads a research centre on the sociology of mobile technologies, says that the shift amounts to a “historical re-integration” of our productive and social spheres. In the hunter-gatherer, agricultural and pre-industrial artisan eras people did not separate the physical space devoted to work, family and play. Blacksmiths, say, worked from their homes, with family and village life all around. It was only with the capital-intensive work of the industrial era that a separation of homes and factories became necessary, because workers “had to be co-located” in order to work efficiently. This also applied to bureaucracies before the digital era. Now, however, the different spheres of life are merging again.

Illustration by Bell Mellor

This leads to more pressure, says Mr Katz. The difference between the integration of work and family in pre-industrial times and today is that in the old days there were clear limits on personal productivity and now there are not. Today “people judge what they should achieve by what they could achieve,” says Mr Katz, and with our new technologies we can always theoretically achieve more. People thus “feel inadequate compared with the enormous opportunity they have”.

The optimists counter that all it takes is a bit of self-discipline and perspective to overcome that anxiety. Mr Ware advises his clients to draw clear boundaries of etiquette. He has an agreement with his own business partner in another time zone that they not bother each other

out of hours. Sun's Mr Schwartz has an iron rule that he spends two hours after work “rolling around on the floor” with his two sons before returning to his gadgets. Mr Coburn admits that work and family are “all one big blur” but likes it that way. Mr Saffo and his wife ban all gadgets during dinner by candlelight.

Almost all the sociologists and psychologists in academia, however, take a more pessimistic view. Sherry Turkle, a professor at the Massachusetts Institute of Technology (MIT) who studies the psychology of gadget use, believes that the addicts, often called “CrackBerries”, are “watching their lives on that little screen and can't keep up with it”, leaving them permanently anxious.

Rutgers' Mr Katz argues that the “frenzy is only going to get worse.” This is, first, because of “random reinforcement”, the desultory pattern of rewards that comes with addictive behaviours such as gambling. A CrackBerry winnows through his e-mail throughout the day, knowing full well that most of it is chaff, but cannot help himself because of that occasional grain. The second reason, says Mr Katz, is that most people suffer from the illusion that more information always leads to better decisions, and there is always more information available on our phones and laptops. The third reason is that “people today need to do constant impression-management,” because the mere ability to stay connected during weekends, vacations or sabbaticals means that going offline risks reminding others that we are expendable.

The flexibility, freedom and productivity of mobile work thus have a cost. Nomads are constantly juggling the social rights of colleagues, relatives and friends, as well as their own right to downtime. All of this, moreover, now tends to happen in public places that were not built specifically for work, in the way offices were. The next article looks at how that affects those kinds of places.

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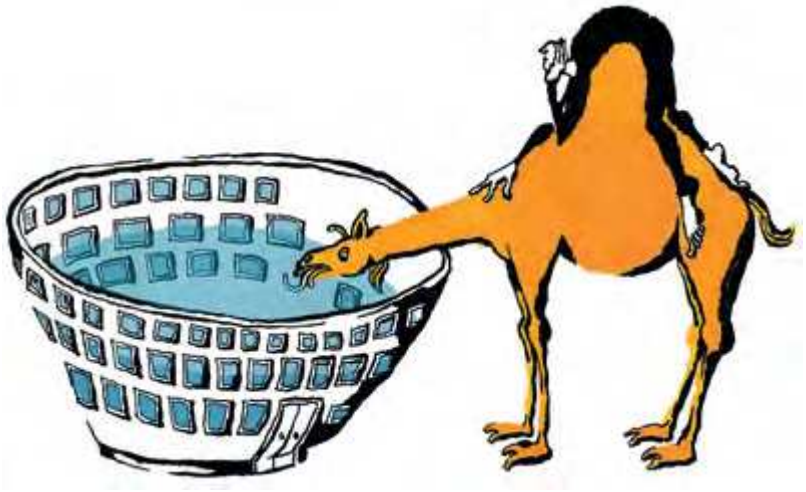
The new oases

Apr 10th 2008
From The Economist print edition

Illustration by Bell Mellor



Nomadism changes buildings, cities and traffic

FRANK GEHRY, a celebrity architect, likes to cause aesthetic controversy, and his Stata Centre at the Massachusetts Institute of Technology (MIT) did the trick. Opened in 2004 and housing MIT's computer-science and philosophy departments behind its façade of bizarre angles and windows, it has become a new Cambridge landmark. But the building's most radical innovation is on the inside. The entire structure was conceived with the nomadic lifestyles of modern students and faculty in mind. Stata, says William Mitchell, a professor of architecture and computer science at MIT who worked with Mr Gehry on the centre's design, was conceived as a new kind of "hybrid space".

This is best seen in the building's "student street", an interior passage that twists and meanders through the complex and is open to the public 24 hours a day. It is dotted with nooks and crannies. Cafés and lounges are interspersed with work desks and whiteboards, and there is free Wi-Fi everywhere. Students, teachers and visitors are cramming for exams, flirting, napping, instant-messaging, researching, reading and discussing. No part of the student street is physically specialised for any of these activities. Instead, every bit of it can instantaneously become the venue for a seminar, a snack or romance.

The fact that people are no longer tied to specific places for functions such as studying or learning, says Mr Mitchell, means that there is "a huge drop in demand for traditional, private, enclosed spaces" such as offices or classrooms, and simultaneously "a huge rise in demand for semi-public spaces that can be informally appropriated to ad-hoc workspaces". This shift, he thinks, amounts to the biggest change in architecture in this century. In the 20th century architecture was about specialised structures—offices for working, cafeterias for eating, and so forth. This was necessary because workers needed to be near things such as landline phones, fax machines and filing cabinets, and because the economics of building materials favoured repetitive and simple structures, such as grid patterns for cubicles.

The new architecture, says Mr Mitchell, will "make spaces intentionally multifunctional". This means that 21st-century aesthetics will probably be the exact opposite of the sci-fi chic that 20th-century futurists once imagined. Architects are instead thinking about light, air, trees and gardens, all in the service of human connections. Buildings will have much more varied shapes than before. For instance, people working on laptops find it comforting to have their backs to a wall, so hybrid spaces may become curvier, with more nooks, in order to maximise the surface area of their inner walls, rather as intestines do. This is becoming affordable because computer-aided design and new materials make non-repetitive forms cheaper to build.

Who needs a desk?

The effect already reaches far beyond university campuses and is causing upheaval in the commercial-property industry. Debra Moritz, a director at Jones Lang LaSalle, a firm that helps companies to manage their office buildings and consults on property investments, says that the total area devoted to traditional office space has begun to decline, although slowly. This is because “inefficiency is more obvious as workers become mobile,” she says. According to Jones Lang LaSalle's research, workers are at their desks, on average, less than 40% of their time (Ms Moritz ditched her own desk long ago). This does not mean that office space will drop by 60%. But it does mean that office designers are thinking about using space better.

There will be more “on-demand spaces” and “drop-in centres”, says Ms Moritz, with flexible layouts that facilitate collaboration. Within a typical office building, the area devoted to solitary work, such as the cubicles immortalised in Dilbert cartoons, will shrink. Internal walls and furniture are becoming movable. More space is given to communal areas, some of which are distinguished not by their function but by their etiquette—loud or quiet, say—as in libraries.

A particularly striking example, bordering on caricature, is the so-called Googleplex, the headquarters of Google in Mountain View, California. Naturally it has Wi-Fi coverage. But the Googleplex is famous for its good and free victuals, doled out at food courts throughout the sprawling campus, and for the casual mixture of play and work. Over here a software engineer is writing some code on his laptop, sweaty in his workout clothes from the volleyball game in progress on the lawn. Over there another one is zipping along on a scooter, heading for a massage or going to pick up his laundry from the onsite service. Google even extends this workspace, virtually, throughout the entire San Francisco Bay Area by running a fleet of commuter shuttles, all of which have Wi-Fi on board to allow uninterrupted coding.

Some traditional property developers are drawing inspiration from this sort of thing. Nomadism is “not good for the office industry” as such, concedes Robert Dykstra, who has been developing commercial property for 27 years. He, however, has spotted an opportunity. His new office park in Grand Rapids, Michigan, a dilapidated city that hopes to take some service-sector jobs from nearby Chicago and Detroit, is unlike any traditional office and “more like a community centre”. Instead of renting to corporate tenants, says Mr Dykstra, he plans to sell memberships as a club does—by the hour, week or month—to nomads dropping by. Mobile workers come in, find all the services they might need—from tech support to copying—and satisfy their needs for “work, love and play” as well, with the aid of fitness studios, restaurants, cooking classes and music rooms.

This “flexibility is what separates successful spaces and cities from unsuccessful ones,” says Anthony Townsend, an urban planner at the Institute for the Future, a think-tank. Almost any public space can assume some of the features of a Googleplex or a Stata Centre. For example, a not-for-profit organisation in New York has turned Bryant Park, a once-derelict but charming garden in front of the city's public library, into a hybrid space popular with office workers. The park's managers noticed that a lot of visitors were using mobile phones and laptops in the park, so they installed Wi-Fi and added some chairs with foldable lecture desks. The idea was not to distract people from the flowers but to let them customise their little bit of the park.

Third places

The academic name for such spaces is “third places”, a term originally coined by the sociologist Ray Oldenburg in his 1989 book, “The Great, Good Place”. At the time, long before mobile technologies became widespread, Mr Oldenburg wanted to distinguish between the sociological functions of people's first places (their homes), their second places (offices) and the public spaces that serve as safe, neutral and informal meeting points. As Mr Oldenburg saw it, a good third place makes admission free or cheap—the price of a cup of coffee, say—offers creature comforts, is within walking distance for a particular neighbourhood and draws a group of regulars. The eponymous bar in the television series “Cheers”, “where everybody knows your name”, is an example.

Mr Oldenburg's thesis was that third places were in general decline. More and more people, especially in suburban societies such as America's, were moving only between their first and second places, making extra stops only at alienating and anonymous locations such as malls, which in Mr Oldenburg's opinion fail as third places. Society, Mr Oldenburg feared, was at risk of coming unstuck without these venues for spreading ideas and forming bonds.

Illustration by Bell Mellor

No sooner was the term coined than big business queued up to claim that it was building new third places. The most prominent was Starbucks, a chain of coffee houses that started in Seattle and is now hard to avoid anywhere. Starbucks admits that as it went global it lost its ambiance of a “home away from home”. However, it has also spotted a new opportunity in catering to nomads. Its branches offer not only sofas but also desks with convenient electricity sockets. These days Starbucks makes bigger news when it switches Wi-Fi providers—it dropped T-Mobile for AT&T in February—than when it sells a new type of coffee bean. Bookshops such as Barnes & Noble are also offering “more coffee and crumbs”, as Mr Oldenburg puts it, as are churches, YMCAs and public libraries.

But do these oases for nomads actually play the social role of third places? James Katz at Rutgers fears that cyber-nomads are “hollowing them out”. It is becoming commonplace for a café to be full of people with headphones on, speaking on their mobile phones or laptops and hacking away at their keyboards, more engaged with their e-mail inbox than with the people touching their elbows. These places are “physically inhabited but psychologically evacuated”, says Mr Katz, which leaves people feeling “more isolated than they would be if the café were merely empty”. That is because the “physical presence of other human beings is psychologically and neurologically arousing” but now produces no reward. Quite simply, he says, we have not evolved biologically to be happy in these situations.

Many café-owners are trying to deal with this problem. Christopher Waters, the owner of the Nomad Café in Oakland, regularly hosts live jazz and poetry readings, and actually turns off the Wi-Fi router at those times so that people mingle more. He is also planning to turn his café into an online social network so that patrons opening their browsers to connect encounter a welcome page that asks them to fill out a short profile—as they would on Facebook, say—and then see information about the people at the other tables.

Most nomads are very open to this sort of thing. Technology aside, there is not such a big difference between a geek with earphones and a laptop today and a Paris existentialist watching the world go by at the café Les Deux Magots in the 1950s. The first might be simultaneously instant-messaging, listening to music and e-mailing, the other puffing a Gitane and jotting down notes about being and nothingness. But as soon as an attractive new customer breezes in, both will instantaneously realign their focus of interest.

As more third places pop up and spread, they also change entire cities. Just as buildings during the 20th century were specialised by function, towns were as well, says Mr Mitchell. Suburbs were for living, downtowns for working and other areas for playing. But urban nomadism makes districts, like buildings, multifunctional. Parts of town that were monocultures, he says, gradually become “fine-grained mixed-use neighbourhoods” more akin in human terms to pre-industrial villages than to modern suburbs.

Ms Moritz at Jones Lang LaSalle is already counting more offices leaving suburbs entirely and moving back into downtowns, which tend to be younger and hipper. This helps to revitalise city centres. Paul Saffo, the forecaster, sees a simultaneous movement to “charismatic exurbs”, such as Mendocino on the Californian coast or Cape Cod in Massachusetts, where incoming nomads are building “consensual communities” with lifestyles reminiscent of the Utopia movements of earlier times. The big losers, Mr Saffo thinks, are the suburbs that were built for specific functions in a previous era but are now blighted.

The same trend is also changing traffic patterns. Alan Pisarski has been researching urban movement for three decades and has written a series of three books called “Commuting in America”—the first in 1986, the others one and two decades later. He is now working on the fourth. Thanks to the ten-year intervals, Mr Pisarski claims he has been able to capture the biggest trends. In 1986, before the era of mobility and at the dawn of the PC era, he still observed “the classic diurnal flow” of the post-war commuting pattern, which had baby-boomers sitting in traffic jams at 8am and 5pm between the suburbs and the downtowns. In 1996 he saw a new “circumferential pattern” as jobs shifted to the suburbs, so the baby-boomers were now sitting in jams “on the beltways”. At the same time he already noticed that the fastest-growing group was telecommuters.

Things started looking very different in his 2006 book. Younger workers were now joining the baby-boomers in the workforce. Car trips had stopped increasing and were even declining in cities such as

Seattle, Atlanta and Portland. Traffic was still heavy but now spread out over much longer periods, starting at 5am and lasting till noon, say. Bizarre new patterns were cropping up, such as a “reverse commute” in Seattle as lots of male computer scientists at Microsoft in the suburb of Redmond raced downtown to find females—a weekday ritual called “the running of the programmers”.

The current data, for use in the next book, are telling Mr Pisarski something else again. The baby-boomers are starting to retire, forcing employers to compete for new talent by letting younger employees work wherever they please. Even the older workers are becoming nomadic (Mr Pisarski himself is 70 and works from his BlackBerry and laptop). Traffic congestion, though still bad, is for the first time not getting worse. Car-pooling, which “green” city governments are still encouraging, is declining sharply as commuting times and directions are becoming more diverse and more complex.

Indeed, even though there are as many cars on the roads as ever, they are now making very different journeys. In the previous decade trips followed a “radial pattern”, says Mr Pisarski, as both office workers and telecommuters ran errands away from their workplace and back again in order to check their voice messages and faxes. Now people are making trips in a “daisy-chain” pattern, he says. Nomads set off in the morning to drop off the kids at school and then spend all day hopping from one third place to another, with stops at the gym, the post office and so on. Throughout the day they remain connected to colleagues and family members who are elsewhere, and increasingly their movements form no discernible collective pattern at all.

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Family ties

Apr 10th 2008
From The Economist print edition

Illustration by Bell Mellor

Kith and kin get closer, with consequences for strangers

IN AUGUST 2006, the wife of an Israeli soldier on duty in the Lebanon war gave birth to a boy. The army granted the father a brief leave, but he had to return to the front before his son's *bris*, the ritual circumcision on the eighth day of his life. So the family did the next best thing. As the *sandak* held the baby and the *mohel* made the cut, a relative filmed the entire event on a mobile phone so that the father on the Lebanese border could watch, live, on his own mobile phone and sing and dance with his comrades.

The tools of nomadism clearly bring families closer by allowing them to stay connected when physically separated. But there are unexpected side effects in many everyday situations, as the following anecdote shows. Richard Ling, a sociologist at Telenor, the largest Norwegian telephone company, and author of "New Tech, New Ties: How Mobile Communication Is Reshaping Social Cohesion", was standing on his porch in Oslo one day, saying farewell to a few guests, when a plumber walked around the corner, talking on his mobile phone to what appeared to be his wife. Mr Ling, who had a leak in the kitchen, was expecting him. But the plumber took Mr Ling and his guests aback by walking right past them and into the house, where he took off his shoes and headed for the kitchen, chattering into his handset all the while.

It was the sort of thing that perhaps excites only sociologists. Here was an example of two big tensions in nomadic society. First, mobile technology pitted the plumber's interaction with a stranger (Mr Ling) against that with his own wife on the phone. The plumber, to use the technical term, had a "weak tie" to Mr Ling but a "strong tie" to his wife which easily prevailed over the weak one, leaving a few Norwegians feeling temporarily awkward and pondering the fate of their society.

Second, the plumber gave precedence to what Mr Ling calls the "mediated" interaction with the person at the other end of the phone, at the expense of his "co-present" communication with Mr Ling who was standing right next to him. In other words, the person who was physically more distant was nonetheless psychologically closer. So out went social norms and rituals (handshakes, greetings) that Norway and other societies accumulated during a past of exclusively co-present interactions. The plumber's only nod to ritual was to take off his shoes.

Sociologists are always arguing about the precise role of ritual in society and the relative importance of the individual, family and community. Emile Durkheim, the earliest, kicked off the debate more than a

century ago when he studied Australian aborigines and found that they used rituals to create and maintain solidarity and cohesion among a group. In the 1950s Erving Goffman broadened the definition of rituals to ordinary interactions of daily American life, such as jokes.

In the 1970s Mark Granovetter became one of the most influential sociologists of that decade with a paper titled “The Strength of Weak Ties”. Mr Granovetter argued that society needs not only healthy “strong ties” between relatives and friends but also ample and fluid “weak ties” between casual acquaintances. Far from trivial, these weak ties are the “bridges” between “densely knit clumps of close friends” and thus the conduits for ideas, fads and trends. “Social systems lacking in weak ties will be fragmented and incoherent,” Mr Granovetter argued. Any erosion of weak ties is therefore to be deplored.

The more dismal science

In the 1990s, as the internet came into widespread use, sociologists, never an upbeat bunch to begin with, became decidedly pessimistic. Some observed a “loss of social capital” as people spent their time transfixed by screens rather than other people. Others saw the (real-world, as opposed to online) social networks of Americans shrinking, with ever more people feeling that they were intimate with nobody at all. Robert Kraut at Carnegie Mellon University argued that the internet causes social isolation and depression. Norman Nie at Stanford University believed that “internet use at home has a strong negative impact on time spent with friends and family as well as time spent on social activities.”

But most of these observations, made in a rich country at the height of the PC era, focused on the wired and stationary kind of communications technology rather than the wireless and mobile sort. Now, as mobile communications are becoming the norm, a new generation of sociologists is scrambling to update all these theories. So far, most of them agree that nomadic technology, far from isolating people, brings them closer to their families, friends and lovers—their strong ties. But they still disagree on what that means for weak ties with strangers, and thus society at large.

Illustration by Bell Mellor

Nomadic technology deepens family ties because, as another sociologist, Christian Licoppe, puts it, it enables “connected presence”, which is new in history. In the era of stationary communications technology, people used landline phones that belonged to a place rather than a person. In that communication culture people talked infrequently and viewed a conversation as an occasion. Typically, they would plan the call for an appropriate time, such as a Sunday. Both sides would introduce themselves with a greeting—ie, a ritual—and then take time to catch up.

With mobile phones, on the other hand, people call, text or e-mail one another constantly throughout the day. Since they are always, in effect, contacting a person rather than a place, and since the receiver can see the caller's name, and probably his picture, they often dispense with greetings altogether. The exchanges now tend to be frequent and short. People expect less content but instead a feeling of permanent connection, as though they were in fact together during the entire time between their physical meetings.

Mr Ling, using data from Norway, has found that about half of all mobile-phone calls and text messages go to the same three or four people, typically within ten kilometres of the caller. A lot of this is what he calls “micro-co-ordination”, as family members are out about town and check in with each other to plan their next stop or errand. Dad might call from the supermarket's dairy aisle to find out which brand of

yogurt to buy; mum might text that she is running late and that dad needs to pick up the kids.

But such communications go far beyond the merely utilitarian. Manuel Castells, the sociologist at the University of Southern California's Annenberg School for Communication, says that mobile technology affects children the most. On one hand, adolescents today become socially autonomous earlier than their parents did, “building their own communities from the bottom up” through constant text-messaging and photo-sharing among their clique, even if this circumvents the wishes of their parents. On the other hand, they also have their parents on speed-dial, and are only one button away from help if they get into trouble. Mr Castells calls this a “safe autonomy pattern”.

This has some sociologists concerned. James Katz at Rutgers calls the mobile phone a new sort of umbilical cord between children and their parents and wonders whether this might in some cases “retard maturation”. Sherry Turkle, the psychologist at MIT, says that wireless gadgets are, ironically, a “tethering technology” and create new dependencies that delay the important “Huck Finn moment” in young lives when adolescents first realise that they are alone on the urban equivalent of the Mississippi. Getting drunk and lost after a party is different when one push of a button summons the parental chauffeur. In 2005 a psychology professor at Middlebury College in Vermont found that undergraduates were communicating with their parents, on average, more than ten times a week.

Love in cyberspace

Mobile technology also tethers couples, especially young ones, but in a different way. Mimi Ito, an anthropologist who studies the effects of mobile technology on youth culture in Japan and America, has found that Japanese lovers send constant text messages to avoid parental rules and to stay connected emotionally when they are physically separated. Every nomadic culture has its idiosyncrasies, and the Japanese speciality is a rich vocabulary of “emoticons”: “I really want to see you (>_<)”; “I feel like I am going to be sick (;_;)”.

This steady stream of emoticons and photos in between physical “flesh meets” amounts to “tele-nesting”, says Ms Ito. It also spices up and prolongs the flesh meets. Young people in Tokyo, she has observed, will start their date by exchanging text messages all afternoon as they do homework or take the train to the rendezvous. At night, on their journey home after the actual date, they use messages again as “fading embers of conversation”, sometimes continuing for days and turning little memories into the couple's “lore”.

Often entire cliques do this sort of thing, creating, in effect, their own tribal medium and narrative. Ms Ito has noticed a new genre of photography on the rise as young people use their phones to snap photos of everyday situations—the view from the escalator on the way to school, say—which mean a lot to their friends and nothing to anybody else. They especially love photos that capture “dumb things that their friends do”, such as getting drunk and falling into puddles, which collectively amount to “everyday, casual documentaries” for a circle of friends.

Out with the out crowd

The potential problem with connected presence is that it usually excludes other people who may be physically present. In situations that might once have been an opportunity to talk to a stranger—waiting for a bus or boarding an aeroplane, say—people now fill the time with a few messages to parents, lovers or friends. This strengthens the strong ties, but weakens, or even cuts, the weak ties in society. In some cases, says Mr Ling, it leads to “bounded solidarity”, when cliques become so turned in on themselves that they all but stop interacting with the wider society around them.

Illustration by Bell Mellor

The first casualty is usually etiquette. Noise pollution is only one kind of violation. In an American survey conducted in 2005, 62% of the people polled—and 74% of those over 60—felt that “using a cell phone in public is a major irritation for other people,” but only 32% of those between 18 and 27 shared that opinion. That divergence makes for a combustible social cocktail whenever the generations mix. It is routine nowadays for people to answer calls in cinemas, restaurants and public toilets, even at weddings and funerals. The volume of these transgressions varies with the culture—Americans and Italians, say, are louder than Swedes or

Japanese. And some societies are beginning to adjust. Some countries now have “quiet cars” on trains where patrons cannot talk on their mobiles but must text instead.

Trickier etiquette problems arise when the issue is not so much noise as context. One example that will enter the history books occurred last September when Rudy Giuliani, a former mayor of New York, was still waging a vigorous campaign for the presidency. As he was up on his podium and in mid-sentence addressing the National Rifle Association (NRA), a crucial constituency for a Republican candidate, his mobile rang and, to gasps in the huge audience, he decided to answer it. What followed, captured on microphone, is worth repeating in its banality: “Hello, dear. I'm talking, I'm talking to the members of the NRA right now. Would you like to say hello? I love you, and I'll give you a call as soon as I'm finished. OK? OK, have a safe trip. Bye-bye. Talk to you later, dear. I love you.” When he hung up, the audience had turned to stone.

Usually the situation is subtler and the incongruence has more to do with attention. This can be true even during silent mobile communications. It is now routine for university students to text, e-mail and instant-message during lectures. Mr Ling, whose job includes loitering in public places for observation, watched a woman at an Oslo underground station who texted as she walked. She was wholly focused on her text message but had to look up occasionally to weave through the crowds on the platform. Other people were doing the same. It was an “atomised and individualised” scene, says Mr Ling: a new form of the proverbial lonely crowd.

But at least this particular Norwegian woman was signalling through her body language to all around her that she wanted to be left alone. The spread of “hands-free” Bluetooth devices, with hidden earplugs seemingly attached to nothing, is removing even those clues. Steve Love, a psychologist, was travelling on a train from Edinburgh to Glasgow once when a girl standing next to him started talking to him. She asked him how he was and how his day had been, and Mr Love, though a bit shy, politely told her how much he was looking forward to watching Scotland play football that evening. As he spoke, the girl looked at him in horror, then turned away. Only then did Mr Love hear her say “OK, I'll call you later.” Not a word or gesture was exchanged for the remainder of the (suddenly uncomfortable) journey.

Probably the single most common etiquette conflict occurs, as Mr Ling puts it, when mediated communication interrupts co-present communication, as when two or more people are sitting at a table in conversation or negotiation and one of them gets, and answers, a call. The other co-present people must now keep themselves busy while seeming nonchalant. What is more, they must pretend not to be eavesdropping even though they are only a few feet away from the mediated conversation, ideally by assuming a pose of concentration on some other object, such as their fingernails or their own phone. As soon as the intervening call ends, everybody must try to re-enter the co-present context as gracefully as possible.

So there is evidence that nomadism is good for in-groups, but at the expense of strangers. If that is true, Mr Granovetter would consider it bad for society. Fortunately, however, the last chapter has not yet been written. Since the outburst of pessimism about the internet among sociologists in the 1990s, the web has recently become an intensely social medium, thanks in large part to proliferating online social networks such as Facebook and MySpace. Young people have been using these websites on their PCs to keep in touch with much larger groups of people than has ever been feasible before. It is not uncommon for adolescents to add several “friends” a day to their “social graph” on Facebook or to the “buddy list” of their instant-messaging service.

As mobile devices now become, in effect, computers for accessing the wider web, these online services are also moving from stationary to mobile use. Whether that could reinvigorate the weak ties in society along with the strong ties remains to be seen. But etiquette, both online and offline, remains a work in progress.

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Location, location, location

Apr 10th 2008
From The Economist print edition

It matters

Illustration by Bell Mellor

MICHAEL HALBHERR was driving from Berlin to Budapest the other day when he passed what looked like an empty field. The fact that his mobile phone stayed quiet annoyed him. Here he was, speeding by the site of Napoleon's great victory at Austerlitz, and nothing even vibrated.

Mr Halbherr, admittedly, had professional reasons to ponder this shortcoming. He runs “location-based services” (LBS) for Nokia, the world's largest handset-maker. Not letting things such as Austerlitz slip by unnoticed is exactly what LBS is in business for. Some people think it is the “next big thing”. It was Nokia's reason for spending $8.1 billion to buy Navteq, a firm that collects map data around the world.

One advantage that mobile phones have over PCs is that they increasingly know and care where they are. Some use the global positioning system (GPS), which uses satellites, others a slightly less accurate method that calculates the distances of nearby cellular towers and Wi-Fi hotspots.

This is a huge advance, says Stephen Johnson, one of Nokia's strategists, because it adds the third element (“where”) required to understand a person's context, the other two being who and when. Most obviously, this means that “the idea of being lost will be unheard of”, he says. More interestingly, it allows people to become “more immersed in the real world around them”. Within a few years, for example, phones will know where you are at what time, and where you are going next, based on your electronic diary. The phone may also know, from your address book, that you have a friend in the building whose diary says that he is going to the same place. Your two phones will alert you so that you can share a taxi. If you have been sleeping with his wife, or are just not feeling very sociable that day, you can always claim that your battery died at that very instant.

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A world of witnesses

Apr 10th 2008
From The Economist print edition

Illustration by Bell Mellor

When everybody becomes a nomadic monitor

UNTIL a couple of years ago election monitoring was a fiddly, exhausting and often thankless business. Non-governmental organisations (NGOs) such as America's National Democratic Institute (NDI) would send idealistic student volunteers to complicated places such as Nigeria to observe the balloting, write down data on pieces of paper and then carry or fax the forms somewhere for manual input into a computer system. The process was slow and unreliable. Fraud or violence, if it broke out, spread far faster than credible information.

Then, in 2006, a penny dropped. NDI, working with an organisation in Montenegro, realised that practically everybody in that country already had the perfect tool to monitor, in all but real time, its election that May. That tool was the mobile phone and its ability to send text messages directly to a computer. The new approach worked so well that it instantly became the standard for monitoring other precarious elections. A vote in Sierra Leone last August briefly threatened to disintegrate amid rumours of violence—also spread through text messages—but quickly returned to order when some 500 observers at the various polling stations sent text messages to the central system saying that the rumours were false.

The sheer ubiquity of mobile phones amounts to “the biggest leap in history, bigger than the printing press, which, after all, stayed in the hands of very few people,” says Katrin Verclas, who runs MobileActive.org, a website and community of about 3,000 activists and NGOs all over the world. Even quite basic features such as text messaging, she says, have already allowed countless people everywhere to get more involved in areas traditionally reserved for “activists”. The snazzy new features and internet access now coming to mobile phones will expand the possibilities yet again.

An early and classic example of this new opportunity for citizens to participate in society occurred in 2001 when Filipinos, the world's most avid texters at the time, overthrew their president, Joseph Estrada, by mobilising enormous crowds at short notice, using text messages to spread the word. Howard Rheingold, the author of “Smart Mobs”, saw in such events a sign of much more to come, as people discover ever more ingenious ways of organising groups of people on the fly and of collaborating towards any sort of collective goal.

Those goals range from the uplifting, as in the Philippines, to the repellent. The terrorists who bombed three suburban trains in Madrid in 2004, killing 191 people and injuring nearly 2,000, used their mobile phones to detonate the explosives. But a mobile phone then became the clue that uncovered the plot.

Mobile phones also became the tool for organising the huge spontaneous demonstrations in the following days. Thus, like every other technology human beings have ever invented, says Ms Verclas, the tools of nomadism arm both sides in the eternal tug-of-war between good and evil. But there is room for optimism, she thinks, because the side with good intentions is more numerous and—so far, at least—has

proved more imaginative.

Three big categories in particular lend themselves to mobile activism. First, nomadic technology can expose human-rights abuses as honest citizens use technology to monitor and expose crimes and co-ordinate the response. The best weapon against abuses has always been to confront the public with video evidence. This became clear in 1991 when four policemen in Los Angeles pulled over a black man, Rodney King, for speeding and then beat him brutally, with other policemen watching. A bystander, George Holliday, recorded this abuse on his camcorder and soon the images were playing all over America's mainstream media, sparking race riots in Los Angeles.

That event inspired an initial wave of attempts to support grassroots video testimonies by amateurs. In 1992 Peter Gabriel, a British rock musician, started WITNESS, a not-for-profit group, to try to train and equip activists all over the world to use video to document abuses. But little of consequence followed. It was a pure coincidence that Mr Holliday happened to have a camcorder with him when he saw Mr King being beaten, and most of the world's population was not about to start walking around lugging cameras. Even if they had, there was no easy and automatic outlet in the media for such clips.

All this has changed in the past couple of years. Websites such as YouTube that allow any amateur to upload video have become all the rage, and Mr Gabriel's WITNESS has just launched a site called "the Hub" that is dedicated entirely to human-rights clips. Simultaneously, mobile phones have become still cameras and are increasingly turning into video cameras as well. This means that all the tools of testimony are now both mobile and ubiquitous. People no longer need to plan to document wrongdoing, but are able to capture it when and as they experience it. At the mundane end of the spectrum, they record cars speeding on roads near schools or snap photos of derelict public parks, then upload them to their community website. At the extreme end, as in Albania and Egypt recently, they film police brutality, or government outrages such as the crackdown by Myanmar's junta on its Buddhist monks.

The second area where mobile technology is beginning to have a big impact is health care, especially in poor countries. In South Africa people can text their location to a number and get an instant reply with the nearest clinic testing for HIV. HealthyToys.org, founded by a parental advocacy group and two American organisations, lets concerned parents text in the name of a toy they are considering buying in a shop and instantly reports back with information about lead or other toxins that may have been found in it. Soon mobile technology could play a large role in detecting, mapping and responding to epidemics. A lot of information about a recent polio outbreak in Kenya became available because health workers were using hand-held devices to collect data that used to be recorded on paper forms.

The software on those devices, called EpiSurveyor and made by a not-for-profit organisation called DataDyne, is also used by health workers in Sierra Leone and Zambia. The World Health Organisation has now declared it to be the technological standard, and DataDyne is in the process of loading it onto ordinary mobile phones for use in poor countries everywhere, says Joel Selanikio, a doctor who co-founded the organisation. For most people in poor countries, he thinks, mobile phones are fast becoming the main communications tool, schoolbook, vaccination record, family album and many other things.

The third category is environmental monitoring. The humble text message has already changed consumer behaviour in many places. Shoppers in South Africa can text the name of a fish to a service called FishMS and receive an instantaneous recommendation "to tuck in", to "think twice" or to "avoid completely", based on how the fish was caught and whether the species is endangered. Londoners can text a service called AirTEXT to get information on air quality, and subscribers receive alerts when pollution is forecast to spike.

Scents and sensability

The real fun begins when phones start observing and reporting problems automatically. This is now on the horizon. In January researchers at America's Purdue University reported that they are building a system for the state of Indiana designed to use a network of mobile phones to detect and track radiation. In the event of a nuclear leak or a "dirty bomb", the sensors of large numbers of phones, all identifying their location through the global-positioning system (GPS), would point authorities to the source of the radiation.

Such tracking systems rely on the collective information from large numbers of phones, whose owners may not even be aware of the part they are playing in this. If, say, a car is carrying a dirty bomb and driving down a street, it passes others cars. The mobile phones inside those passing cars would send

information to a database. The signal would grow weaker as the distance from the source increases, whereas the signal from phones in approaching cars would grow stronger. The software would then use the sum of this information to pinpoint the bomb.

The idea that phones should have sensors is far from outlandish. Phones already incorporate primitive versions, including the sensor that picks up the cellular signal, light sensors that dim the keyboard and acceleration sensors that notice when the user lifts the phone to his ear. “Today, everybody can look at his phone and say how many signal bars he has,” says Eric Paulos, a researcher at Intel, the world's largest chipmaker. “In a few years, everybody will look at his phone and see what the pollen count is.”

Mr Paulos runs a project on “participatory urbanism” for Intel, which explores exactly how sensors inside mobile phones might improve society. He recently conducted a study in Ghana, where he attached tiny pollution sensors to the phones of 15 taxi drivers. Using the data—the amount of pollution at specific times of day in places where the taxis went—Mr Paulos's team drew up a pollution map of the city which revealed surprising patterns in particular roads. Some of the taxi drivers changed their routes as a result.

Carbon monoxide, ozone, pollen, sun intensity and temperature are among the things that Mr Paulos considers particularly easy to measure by tweaking mobile phones in ways that consumers would not even notice. Any such data would need to be collected in a discreet way to assure the privacy of consumers. But eventually, thinks Mr Paulos, this new twist to the everyday mobility of ordinary people could lead to “grassroots citizen science”.

Does this trend give any cause for concern? To some people it suggests a coming surveillance state, as all sorts of titbits about people's personal lives that used to be private become input for new services such as traffic maps, health warnings or security alerts. Those worries, evoking an earlier era of top-down control by a Big Brother, are mostly misplaced, claims Mr Verclas. A neighbourhood-watch community with global reach is a better metaphor. Instead of surveillance, watching from above, society will rely on a new and opposite concept, sousveillance, watching from below. Such arguments may make more sense in California than in China.

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Homo mobilis

Apr 10th 2008
From The Economist print edition

As language goes, so does thought

Illustration by Bell Mellor

SHERRY TURKLE, the psychologist at MIT who studies the nexus between people and gadgets, believes that the tools of mobility are leading to "the emergence of a new type of person". In the distant, landline-dominated past, she says, people thought: "I have a feeling so I want to make a call." Young people today, including Ms Turkle's teenage daughter, seem to be thinking instead: "I want to have a feeling, so I need to make a call." What she means is that there is something inorganic, derivative and inauthentic about a lot of mobile communication. As a species, Ms Turkle thinks, we run the risk of letting the permanent wireless social clouds that surround us steal part of our nature.

Is that a bit rich? Certainly, tools have always played a big part in defining human nature. *Homo habilis*, "handy man", is considered the first species in our genus, surviving until about 1.6m years ago, because he used primitive tools made from stone or bone. *Homo erectus*, "upright man", got his name from his stature, but his crucial innovation was to tame fire for his use. And whether or not *Homo sapiens*, "wise man", entirely lives up to his name, he has achieved astonishing breakthroughs both in hardware (eg, the wheel) and software (eg, language).

If researchers in ivory towers now debate the arrival of *Homo mobilis*, their tongue is only partially in their cheek. Once again the biggest shift seems to involve language, and by implication thought and feeling. That major linguistic change is afoot is clear to anybody who has been around young people almost anywhere in the world. Entire subcultures now define themselves primarily or exclusively through their chosen text-messaging or instant-messaging argot.

Richard Ling, for instance, has studied a teenage fad in Norway that had kids substituting the letter "z" for "s" in Norwegian words, yielding spellings such as "koz" or "klemz", both meaning "hug". This substitution defined, as Mr Ling puts it, "middle-class teenyboppers"—until a rap band ridiculed the trend, thus killing it off. The teens immediately took to writing their text messages and e-mails in pidgin Swedish. Among this group of Norwegians, a Swedish word such as "kramar" (again, hugs) became "krämmar". Both the "z" endings and the pidgin Swedish showed up only in electronic media, never in spoken language.

So far, that suggests nothing more than a new variant of traditional in-group markers such as tattoos or Ivy-League class rings. But Naomi Baron, a linguist at American University in Washington, DC, and author of "Always On: Language in an Online and Mobile World", sees more worrying trends. Society's attitude towards language has changed, she thinks. For about 250 years, the consensus in Western societies has been that grammar, syntax and spelling matter, and that rules have to be observed. That consensus now appears to be at risk.

In all electronic media, especially when typed on the small screens of mobile handsets, absolutely anything, linguistically speaking, seems to go. Apostrophes that once distinguished between "its" and "it's" seem quaint and arbitrary. Entire words and sentences now compose themselves with the ever-present "autofill" and spell-check features, which adolescents increasingly regard as a virtual Samuel Johnson or Konrad Duden.

The academically and politically correct response is to welcome this trend with open arms. Language, after all, appears only to be returning to its natural and healthy state of flux. When Geoffrey Chaucer was writing in the 14th century there were no set spelling rules, but he managed to compose interesting texts nonetheless. For all we know, today's digital and mobile world might be teeming with potential Chaucers.

Ms Baron will have none of it. Spelling is in decline today, she thinks, not because of the rich diversity of dialects, as in Chaucer's day, but because the dominant mindset of nomadic culture is that language does not matter. We are entering, as she puts is, an age of “linguistic whateverism”. One reason is that people today are writing vastly larger amounts of text than ever before, and “the more we write online, the worse writers we become.” In the eras of quills, pens or even manual typewriters it was hard to write a lot, so people took time and care in clarifying their thoughts. Many nomads today are convinced that they don't have the time to think and care, so they concentrate on speed alone.

Because language is the primary vehicle for thought, this has consequences. Already, Ms Baron detects a new and widespread intellectual torpor among her students. Young Americans used to cut corners before an exam on “Hamlet” by reading the CliffsNotes. Teachers hated them, but they were pedagogic wonders compared with today's method of Googling the passage in question, then using the computer's “find” function to get to the exact snippet. Ms Baron thinks that these days her students even think in snippets, which is to say incoherently. And that is how they write essays. Having internalised the new whateverism, they launch in and stumble through, with nary a thought for what they actually want to say.

Illustration by Bell Mellor

This criticism dovetails strikingly with what other sociologists and psychologists are observing in the interpersonal behaviour of some nomads. Older people use their mobile phones to “micro-co-ordinate” with partners during the day in order to run their errands more efficiently and perhaps to spend more time together as a result. But many younger people, who have never known paper diaries or an unconnected world, micro-co-ordinate in order to avoid committing themselves to any fixed meeting time, location or person at all. After all, a better opportunity might yet present itself.

The concern, therefore, is that young nomads not only write without thinking or leave home in the morning without planning but also enter relationships without tying themselves down. Large parts of human interaction, especially the awkward subjects of rowing and separating, can now be relegated to virtual, as opposed to physical, interaction. A worrying trend in recent years has been adolescents' practice of dumping their lovers by text message or, worse, by changing the status of their Facebook profile from “in a relationship” to “single”. This is efficient and instantaneous, but potentially traumatic.

Oh evolve!

Much of this pessimism is probably overblown. *Homo sapiens* has been creating technological curses throughout history, and has so far managed to cope with every challenge thrown up. Only a few decades ago the prevailing worry was that television, the reigning medium at the time, was creating a generation of unimaginative couch potatoes, if not intellectual vegetables. That description is quite the opposite of what youth culture has in fact become in today's era of the internet and nomadism. Even if young people today read the Iliad and Shakespeare only in snippets, if at all, says Manuel Castells at the University of Southern California, they are also creating an artistic culture more vibrant and imaginative than arguably any that has preceded it. The common name for this genre is “mash-up culture”, but that does not do it justice. Today's creative types do more than stitch together (“mash up”) snippets. They forge new combinations almost as neurons form synapses to create new thoughts.

As for the things that can come between people, technology is certainly one of them. So it has been since a spear missed the mammoth and hit a tribesman. Every technology has created new excess and silliness. In time, each silliness has produced its own backlash and subsequent adjustment. At the simplest level, it is reasonable to assume that *Homo sapiens*, having invented the “on” button, will discover the “off” button as well.

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Sources and acknowledgments

Apr 10th 2008
From The Economist print edition

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A list of academic researchers in the field: http://www.scils.rutgers.edu/ci/cmcs/theorists/

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Offer to readers

Apr 10th 2008
From The Economist print edition

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The food industry

Tightening belts

Apr 10th 2008
From The Economist print edition

EPA

As commodity prices rocket and America's economy sickens, food companies and retailers are racing to adapt

THE food industry is being squeezed from all sides. Last year prices for milk, eggs, corn, wheat, oils and almost all other edible commodities climbed to unprecedented levels. They are still rising, although at a slower pace. The prices of electricity and fuel are also on the increase, which makes processing and distribution more expensive. And passing on higher costs is not easy when customers too are feeling the pinch, as unemployment rises, the value of their homes falls, and inflation erodes their purchasing power.

In one sense, food is recession-proof, since people have to eat in good times and bad. What is more, over the past 30 years the share of food in American and European household spending has fallen from an average of 30% to less than 10%, so consumers do not care about price hikes as much as they did in the past. Even so, they are responding to the economic gloom by changing what they eat, where they eat and where they buy their groceries.

Martin Deboo, an analyst at Investec Securities, a stockbroker, uses the well-worn but apt analogy of the “perfect storm” to describe the industry's predicament. Those best positioned to weather it include multinational companies with diversified customer bases, such as Nestlé, Unilever and Danone, as well as retailers that focus on low prices, such as America's Wal-Mart. Among the losers are posh grocers such as Whole Foods Market, a firm based in Texas which specialises in fancy, often organic food (see chart). The downturn also hurts smaller companies that do not have the benefits of scale, depend too much on customers in a single country or region, and do not add much value to the commodities they process.

Nestlé, the world's biggest food firm, has so far coped well with the rise in commodity prices. Its sales around the world grew 7% last year compared with an average of 1.8% for the industry. Like most of its rivals, the firm has passed some of the price increases on to its clients. But it was better prepared for inflation than most. “We saw this coming, so we hedged by forward-buying raw materials,” says François-Xavier Perroud, Nestlé's spokesman.

Far-sighted and nimble sourcing, needless to say, has become more important than ever. Nestlé, which uses lots of milk making baby formula and chocolate bars, buys it under contract directly from farmers,

rather than on the open market, where prices jumped by as much as 50% last year. It has also changed the recipe of some of its goodies to reduce their milk content.

But even clever purchasing is not enough to help makers of lightly processed or generic products, which tend to have slender margins. So Nestlé is getting out of the business of making basic wholesale products such as tomato purée and cocoa paste. It is also putting a huge pasta factory at Sansepolcro in Italy up for sale, though it will continue to use much of its output, and to sell fresh pasta dishes, sauces and other more profitable Italian products under the Buitoni brand.

Hold the soya oil

Kraft, one of America's biggest food firms, is struggling with the soaring prices of its ingredients. The cost of these jumped by 9% or $1.3 billion last year, taking a bite out of profits. The Illinois-based company says it is working hard to defray the extra expense by saving money elsewhere. But it believes its best defence against rising costs is to go on the attack, with products and marketing that are better suited to leaner times. For example, the company has changed the recipe and packaging of Miracle Whip, a salad dressing and sandwich spread that is advertised as having the taste of mayonnaise with half the fat. It now comes in a plastic jar instead of a glass one, and has a wider opening that allows buyers to scrape out the very last glob. It now contains less soya oil, which is both fattening and expensive, and more water, which is slimming and cheap.

Kraft has launched a new pizza called DiGiorno Ultimate, in an effort to lift its DiGiorno brand of frozen pizzas into what it calls the “super premium” category. The idea is to offer consumers a cheaper alternative to eating in pizzerias, which rack up $35 billion in sales each year in America. Customers seem to like it: the DiGiorno Ultimate accounted for a third of all sales of new sorts of frozen pizza last year. To keep the pizzas flying from the freezers this year, Kraft plans to offer individual servings of both its DiGiorno and California Pizza Kitchen brands, aimed at single people who might not enjoy a lonely meal at a pizzeria anyway.

American restaurants are also feeling the effects of the slowing economy, according to a spokeswoman for the National Restaurant Association. The industry is still growing: sales are still forecast to reach $558 billion in 2008. But the rate of growth, at 4.4%, is lower than in previous years. So far restaurant-goers are not cutting back too much on their restaurant visits, but they are spending less each time. Restaurateurs are trying to avoid passing the higher cost of ingredients on to customers by increasing productivity—by training waiters to double as kitchen hands, for example.

Cheap restaurants are becoming more popular. McDonald's, the biggest fast-food chain, did much better last year than the year before, though the firm says it is not sure whether to attribute this to higher food prices, revised menus or a redesign of many of its outlets. Its customers do not (yet) seem to be trading down to “value-priced” food, but then all the items on its menu cost less than $10.

Just to be on the safe side, McDonald's has come up with a whole menu of items that cost just $1. It has started an advertising campaign aimed at “Dollar Menunaires”. Its rivals have followed suit: Wendy's and Burger King are both selling double cheeseburgers for $1. Even Starbucks has plans for a $1 coffee.

Another firm that is thriving in the stormy environment is Wal-Mart, the world's biggest supermarket chain. It argues that its obsessive focus on low prices is in keeping with the straitened times. The firm is working with food producers to come up with ever-cheaper offers. “We aim to be, wherever possible, the first to lower prices and the last to raise them,” says a spokeswoman.

Food prices are likely to remain high for some time. The trends that are feeding the inflation, including increased demand from developing countries and the growing diversion of crops to make biofuels, show little sign of slowing. But necessity is the mother of invention; and the food industry seems to have no shortage of fresh recipes.

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Deutsche Telekom

Bad connection

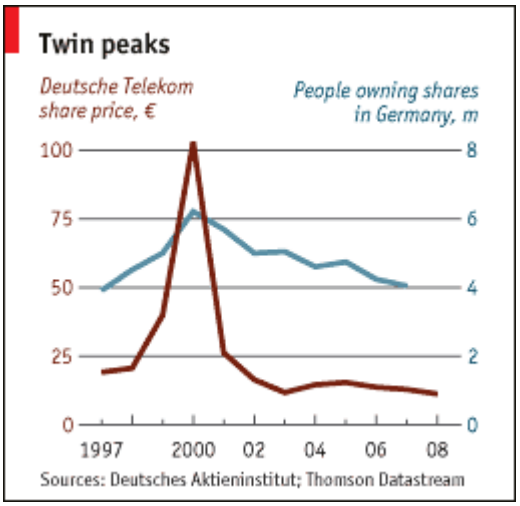
Apr 10th 2008 | FRANKFURT
From The Economist print edition

A class action of sorts for Germany's disillusioned shareholders

THE German media have billed it as the trial of the century: 16,000 plaintiffs and 800 lawyers battling to win compensation from Deutsche Telekom, Germany's communications giant. These argue that the company misled investors when it issued new shares in June 2000, both by overvaluing its properties (by around €2 billion, then worth $1.9 billion) and by keeping quiet about plans to take over Voicestream, an American mobile operator, for which it paid $33 billion soon afterwards. The sum at stake—€80m—is relatively small, but the trial, which began on April 7th in a capacious hall in Frankfurt, is seen as a watershed, and not just because of the number of people involved. It constitutes Germany's first timid step towards American-style class-action suits, and highlights ordinary Germans' disenchantment with shareownership.

The federal government first sold a chunk of the previously entirely state-owned Deutsche Telekom in 1996, when its shares were first valued at the D-mark equivalent of €14.57. There was a second issue, in 1999, at €39.50. The price reached a euphoric peak of €104.90 in March 2000, before entering a slump from which it has never recovered. The third issue, on which the trial centres, was priced at €66.50. At the time of the first issue alone, over 3m people collected the forms needed to apply for what was billed as “the people's share”. There are now some 2.7m shareholders. Their shares fetch barely €11 each, leaving a worrying crack in many a nest-egg.

This sorry trajectory neatly mirrors the slump in the number of Germans who own shares of any sort, which hit a peak of 6m, or 7.5% of the population, in 2000 and has since fallen by a third (see chart). Potential investors seem to have been particularly put off by the fate of Deutsche Telekom, which was touted as a safe investment, especially since the government remained the biggest shareholder.



Claims of misconduct at the company have doubtless added to the disillusion. Its lawyers argue that individual property valuations vary at the best of times and that the net impact on shareholders of the €2 billion revaluation was negligible. The 3m or so shareholders who have not sued, they point out, far outnumber the 16,000 who have. But in 2005 Deutsche Telekom agreed on a $120m settlement with American investors who had brought a class action on the same grounds. The firm says it settled without prejudice, for fear of the caprice of American juries, which sometimes take against big firms.

Germany does not allow class actions, but in 2005 the government passed a temporary measure, dubbed the Lex Telekom, to allow a group of “model” plaintiffs to establish a precedent in the Deutsche Telekom case. It is this model trial which is now under way. But whatever the outcome, the losers are likely to appeal to the Federal Supreme Court. Even if the model plaintiffs are ultimately successful, all the other claimants must then sue separately in a lower court—a process which could take 20 years.

“Compared with America we are at a great disadvantage,” says Andreas Tilp, whose law firm is spearheading the model trial on behalf of shareholders. “There is no class action, no discovery of documents, and we—not the company—have the burden of proof.” Most aggravating for Mr Tilp is his inability to secure documents, such as a Bonn prosecutor's report that he believes concludes there was balance-sheet fraud, and another report from the Federal Audit Court, which was pivotal in the American settlement.

“There's a risk it will turn into a farce,” says Marc Tüngler, a managing director of DSW, Germany's best-

known shareholder-protection group. “It shows how sick our legal system is.” But there is little agreement in Germany's parliament on how to amend the Lex Telekom, which expires in 2010. Mr Tüngler sits on a committee that supports a European class-action law, but he fears few of the European Union's members want one. He himself is against the American model. “We don't want a litigation industry,” he says.

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Thomson

Lights, cameras, cut

Apr 10th 2008
From The Economist print edition

A revived French icon jettisons the architect of its transformation

BEFORE Frank Dangeard took the helm at Thomson in 2004, its main business—making televisions—was foundering in the face of cheap competition from Asia. In just four years, he extricated the firm from consumer electronics and reinvented it as a provider of technical services to media firms. But Thomson's directors and shareholders seem to have doubts about all this upheaval. At any rate, they are letting Mr Dangeard depart this week amid a row over boardroom jobs.

Mr Dangeard had seemed the perfect candidate to overhaul Thomson. He is of mixed American and French parentage, like the firm, which was founded by an American and owns American units such as Technicolor, but was until recently a typically French state-owned industrial champion. Mr Dangeard attended both HEC, France's leading business school, and Harvard Law School. He had previous experience at a troubled French state-owned firm, with a stint at France Telecom.

He quickly sold off the television-manufacturing business to a Chinese firm and other consumer-electronics lines to Indian ones, and expanded into the processing and transmission of images, which now account for 90% of the firm's turnover. Its clients include Hollywood studios, American and European television networks, satellite broadcasters such as DirecTV and BSkyB, and telecom companies such as France Telecom and BT. Only 4% of the firm's business is in France these days, and fully 65% in America. The chronically loss-making consumer-electronics group with 65,000 employees has become a technology firm with just 21,000. Its turnover, of about €6 billion ($9.5 billion) remains roughly the same, but it is profitable, and would be more so were it not for the continuing cost of disposing of its old businesses.

But it is one thing to switch from consumer electronics to technology, another to keep pace with the rapid evolution of such a volatile sector. Increasingly, Thomson's customers want what technology types call “triple-play capability”, meaning hardware and software that can handle voice and data as well as the images at which it excels. What is more, Asian firms such as China's Huawei are fierce competitors in this business too. Even technology giants such as Alcatel-Lucent, Cisco, Ericsson and Motorola have struggled on this unforgiving terrain, and Thomson is a fraction of their size.

The natural response might be to seek out joint ventures or even a merger. But the French directors on Thomson's board seem to be growing nervous at the pace of change, especially since results for the second half of last year were disappointing and the share price has tumbled along with those of other firms in the sector. When they tried to kick Mr Dangeard upstairs to be non-executive chairman, he chose to resign instead. But whoever is in charge, Thomson cannot just stand still and wait for the full benefits of its transformation to materialise. If someone with Mr Dangeard's background could not convince the board of that, it is hard to see who will.

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Facebook and Google

Poaching

Apr 10th 2008 | SAN FRANCISCO
From The Economist print edition

The defection of a prized chef is a worrying portent

Get article background

THE most telling indicator of the prospects of Silicon Valley's technology firms is now clear. It is the cooks. The insightful few on Wall Street who understood this in 1999 are now rich. That year, Google, which had just 40 employees at the time, held a cook-off to anoint its “chief food officer”. Charlie Ayers, who had once fed the Grateful Dead, won. Over the next six years, he led Google, which was also dabbling in web searches and online advertising, to dominance in its core competency: ample, free, organic and exotic food.

Mr Ayers eventually left to write a book, “Food 2.0”. But his replacements kept serving burgers made from grass-fed beef, clams sautéed with discs of handmade Chinese sausage, crispy tofu slaw and shots of emerald-green wheat grass. Being not only Californian but Googley, which is to say world-saving, the firm claims to source the overwhelming majority of its ingredients from local farmers. Genetically modified food, needless to say, is out the question.

Despite this nourishing regime, Google has recently experienced a few setbacks. At a virile 23, the founder of Facebook, Mark Zuckerberg, makes Google's co-founders, Sergey Brin and Larry Page, both in their thirties, look almost decrepit. The young and hip social network has trounced Google twice on the ultimate-frisbee pitch. Google's archenemy, Microsoft, has invested in Facebook, and Google's executives have started defecting to it.

But by all measures gastronomic, Google was still the dominant firm—until now. One of Google's current chefs is Josef Desimone, who is admired chiefly for the kombucha tea that he ferments from scratch and that gets the employees' creative juices flowing. Now however, Mr Desimone is smelling the coffee. He has given notice to Google, and will soon start work at Facebook. On Wall Street, no doubt, the short sellers have taken note.

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Doing business in China

850,000 lawsuits in the making

Apr 10th 2008 | SHANGHAI
From The Economist print edition

Chinese firms and lawyers warm to intellectual property

WESTERN firms are always complaining about the theft of intellectual property in China. From knock-off designs to copycat brand names, pirated music and fake drugs, China has a well-earned reputation as a free-for-all when it comes to patents and copyrights. Worse, there often seems little hope of redress: the courts are too distant and too incompetent; the laws are too weak or too vague; the culture is too resistant to the very idea of intellectual property. Yet help is at hand, in the form of Chinese firms with patents to defend.

Since 2003 the number of trademark applications has grown by 60%; the number of patents has nearly doubled (850,000 are now active) and the number of lawsuits about intellectual property has more than doubled (see chart). The government is encouraging the trend in many ways, including signalling to the press to cheer it on.

This enthusiasm marks a dramatic change. During the Maoist era, private property of any kind was seen as theft from the masses, and so subject to just expropriation. Only in 1985 did China begin to enact laws to protect patents. It did not enforce them much until 2001, when the authorities promised to crack down in order to win admission to the World Trade Organisation.

China has since opened more than 50 courts that deal solely with intellectual-property cases, and Chinese firms are using them. Prominent litigants include a pram manufacturer protecting designs, a soya-milk producer defending an industrial process and a maker of Chinese medicines shielding a name that, roughly translated, means "mind and blood purge".

As companies in China establish brands and develop products, the incentive to sue will grow, particularly because the cost of bringing a case is minimal. "If you can afford a car, you can afford a lawsuit," says Tony Chen, who works in the Shanghai office of Jones Day, an international law firm.

In America, firms often settle intellectual-property cases out of court for fear of enormous awards by juries. That is not true in China, Mr Chen says, where a judge rules in the majority of cases and damages tend to be small. They normally cover legal costs, however, turning lawsuits into a self-funding method to battle piracy.

Unsurprisingly, the main beneficiaries of the sudden interest in intellectual property are Chinese lawyers. Some reportedly earn more than $5m a year. Non-Chinese law firms sometimes provide advice on thorny cases. But they are not allowed to file patents or appear in court on behalf of a client—a proprietary process that Chinese lawyers are keen to defend.

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Energy in Japan

Shocking

Apr 10th 2008 | TOKYO
From The Economist print edition

Protectionism is adding to Japan's expensive electricity bill

“J-POWER is different,” says Akira Amari, Japan's trade minister, justifying his unease over a request by The Children's Investment Fund (TCI), a British activist shareholder group, to double its stake in Japan's formerly state-owned electricity wholesaler. Although Japan is open to foreign investment, says Mr Amari, the company deserves special treatment because of its strategic importance: its transmission lines link Japan's four main islands and it is building a nuclear reactor.

Japan is particularly sensitive about investments in energy, because the country is devoid of oil, gas, uranium and other fuels, and so must import almost all its needs. Officials fear that foreign investors might put profits before the long-term planning and investment this natural deficit demands. TCI, after all, has called on J-Power to pay a higher dividend and take on more debt.

Japan is not alone in this view. The European Commission is struggling to persuade the governments of European Union countries that they should allow foreigners to buy their national energy champions (although the British government seems to have no objection to selling its 35% stake in British Energy, a nuclear-power firm, to the various foreign suitors that have been lining up in recent days). But Japan's energy sector seems particularly in need of the fresh capital and new ideas that outsiders might provide.

Although energy prices in Japan have been falling thanks to deregulation, they are still among the highest in the world. Between 1995 and 2005 they fell by almost 40%, even as consumption rose by around 20%. Consumers saved ¥5.7 trillion ($50 billion) over the decade.

In 2003, the government privatised J-Power in the hope that the rigours of the market would instil greater efficiency. Ten private firms now handle generation, transmission and distribution in specific regions, supplemented by two big wholesalers, of which J-Power is one.

Yet high electricity prices persist in part because of weak competition, according to a report by the Organisation for Economic Co-operation and Development published on April 7th. (The recent rises in the prices of most fuels cannot have helped either.) It ranked Japan's energy sector as the least open among rich countries, measured in terms of legal restrictions on market entry, vertical integration of companies and the independence of regulators. It is Mr Amari's ministry, for example, rather than an independent agency, that oversees dealings between wholesalers and regional firms.

J-Power shares have sunk by one-third over the past year (in line with the Tokyo market as a whole). Last month TCI put forward a 127-page plan for J-Power to improve its performance. It included recommendations to sell directly to large customers, eschew minority stakes in overseas ventures for majority control, and shed its cross-shareholdings, which total ¥68 billion. Many of the ideas seemed sensible. Yet they were immediately dismissed by J-Power's president, Yoshihiko Nakagaki. At least he did not jump to the job from the trade ministry, like his predecessors.

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Oil and gas in Peru

A warm welcome

Apr 10th 2008 | LIMA
From The Economist print edition

But environmentalists and indigenous groups have their misgivings

Reuters

I declare this oil bonanza open

WITHIN a decade, says Peru's prime minister, Jorge del Castillo, his country will be a net exporter of energy. While other Latin American governments are tightening the screws on foreign investment in oil and gas, Peru is courting it. It has opened up swathes of the country to exploration, and is encouraging the $1 billion modernisation of a state-run oil refinery and the construction of an export terminal for a huge liquefied natural gas project, which would be the biggest investment in Peruvian history.

Alan García, Peru's president, dreams of a petrochemical industry that will attract at least $3 billion and create thousands of jobs by mid-2011, when he leaves office. But campaigners for the environment and for indigenous peoples are not so enthusiastic. They believe the rush to develop Peru's oil and gas jeopardises both the Amazon and coast, and the welfare of some of the country's most vulnerable citizens.

The government has granted more than 80 exploration contracts so far, covering around 540,000 square kilometres (210,000 square miles), an area the size of France). The state agency that promotes investment in oil and gas, Perupetro, auctioned 24 blocks last year alone and is now promoting a further 16.

Daniel Saba, the chairman of Perupetro, says that exploration is yielding results again after decades in which little was found. Last year Argentina's Pluspetrol increased its estimate of the reserves in the Camisea gasfield in southern Peru by nearly 25%. Other firms operating nearby have also announced new finds. In the north, Perenco, a French company, is developing an oilfield that is expected to produce 100,000 barrels a day by the end of 2010. Other foreign firms, such as Spain's Repsol YPF and Brazil's Petrobras, are prospecting in adjacent lots. Perupetro expects between $800m and $1 billion in investment in the coming year. It is hoping this activity will win the attention of the biggest international oil firms, such as Royal Dutch Shell, which discovered Camisea but later sold its Peruvian holdings.

But critics contend the government is cutting corners in its enthusiasm. To make way for exploration, it has scrapped plans for protected areas on the coast and in the forests along the border with Brazil. Last year the government renounced a bill that would have opened parts of an existing national park to the oil industry only after the ensuing row threatened to undermine a proposed free-trade deal with America.

Other exploration blocks overlap reserves for indigenous groups, including some that have no contact with the outside world. Earlier this year activists claimed that Petrolifera Petroleum, a Canadian company exploring in remote jungle, had stumbled on one such group. The company denies it.

Indigenous groups are suing Occidental, an American oil company, for contaminating a huge swathe of jungle during three decades of operation in Peru. Occidental has sold its Peruvian business to Pluspetrol, which now produces almost half of the country's oil—and has also sparked controversy. Most recently, a clash between indigenous protesters and police led to deaths on both sides.

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Health care

Eye-opener

Apr 10th 2008 | NEW YORK
From The Economist print edition

A drug giant diversifies

EXECUTIVES at Novartis, a Swiss pharmaceuticals firm, are certainly getting chummy with their compatriots at Nestlé, a food giant. Two years ago, Nestlé agreed to buy Novartis's medical-nutrition arm for $2.5 billion. Last year, the food company gobbled up the drugmaker's Gerber unit, which makes baby food. And this week Novartis said that it planned to buy Nestlé's controlling stake in Alcon, an eye-care company, for about $39 billion. But for all the analysis the latest deal has prompted about the close ties among the captains of Swiss industry, it reveals more about the troubles facing big pharmaceuticals firms.

The deal's structure is certainly unorthodox. Novartis is to pay $11 billion immediately for 25% of Alcon, and then, most probably, about $28 billion more in two to three years' time for Nestlé's remaining stake of 52%. The drugs company's chairman, Daniel Vasella, denies the format of the transaction has anything to do with the current credit crisis or his firm's finances. It was Nestlé that insisted on the tiered payment scheme, he maintains. But the purchase prompted two ratings agencies to downgrade Novartis's bonds.

Dr Vasella says that the deals Novartis has done with Nestlé are “good for all the firms involved” and that the prices have been fair. Some observers argue that an open auction of Alcon would have raised more money for Nestlé's shareholders, just as an auction of Gerber might have made more money for Novartis's owners. Others think Novartis has paid too much. Analysts at Bear Sterns, a troubled investment bank, downgraded Novartis's shares for just that reason. But Dr Vasella insists that “great assets don't come cheap.”

That is especially true if you are desperate to diversify, as most big pharmaceutical companies are these days. The prices of prescription drugs are not rising much, and may even begin to fall if a new American president decides to push for price controls as part of a universal health-care scheme. Many firms selling branded drugs have alarmingly few new products coming down through the development pipeline, and a worrying number of current bestsellers that are about to lose their patented status. Patents on 15% of Novartis's portfolio of drugs, including its blockbuster heart remedy Diovan, will have expired by 2012. That is likely to unleash an onslaught of competition from cheaper generic drugs, which in turn will eat into the steady earnings that firms like Novartis used to rely on to pay for future research, and so further inhibit the development of new drugs.

No wonder, then, that Novartis is rushing to hedge its bets. It acquired Chiron, a leading vaccines firm, in 2006. It has also bought several manufacturers of generic drugs and folded them into its Sandoz division, which is now the world's second-biggest maker of generics (behind Teva, an Israeli company).

The new acquisition of Alcon, expensive though it may be, fits this strategy well. Alcon's contact lens, glaucoma and medical-devices businesses are a good match for Novartis's Ciba Vision division, which already makes some eye-care products. More important, Alcon's sales are galloping ahead by around 13% a year. Even if they do not have any special Swiss connections, expect other drugs firms to follow Novartis's lead.

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Face value

Addressing the ball

Apr 10th 2008
From The Economist print edition

Can golf be made easier? George Fellows has a plan

Getty Images

MANY chief executives are obsessed with golf. Warren Buffett and Bill Gates are both keen players. Jack Welch, a former boss of General Electric, considered handicaps a good measure of business acumen. James Cayne, the boss of Bear Stearns, and Stanley O'Neal, the former head of Merrill Lynch, both put some work in on their swing last year as their firms suffered big losses in the credit crunch. But George Fellows, the boss of Callaway, a firm that makes golfing equipment, describes himself as only an occasional golfer—and not a particularly talented one at that.

Mr Fellows's business strategy centres on middling players like himself, for whom this week's Masters tournament might as well be on another planet as in Augusta. “I'm in awe of the professional golfers,” he says. “But I identify with people who are average golfers infinitely more than I do professionals.” Callaway's ambition, Mr Fellows explains, is to appeal to dabblers, not least by designing equipment that makes golf easier “for people like you and me, who don't play the same game as Phil Mickelson, and never will.”

Ely Callaway, the firm's founder, had found great success with innovative clubs such as the Big Bertha. Players found they could hit the ball much further with this driver, which has a huge head made from stainless steel rather than the traditional wood. But Mr Callaway died in 2001, without any succession plan in place. The firm quickly churned through several management teams, none of which overcame problems such as variable quality that had resulted from Callaway's rapid expansion. By the time Mr Fellows arrived, in 2005, Callaway was losing money.

Within the world of golf, Mr Fellows's appointment was greeted with scepticism. He had previously worked at Colgate, a toothpaste firm, International Playtex, an underwear-maker, and then Revlon, a cosmetics giant where he had a brief tenure as chief executive. “What does a lipstick guy know about golf?” people asked.

But Mr Fellows believes that the “fundamental principles of running a company don't change just because the product category is different.” In his view, Callaway's problems stemmed from the fact that it saw itself as a golf business, not as a consumer-goods company. He resolved to focus on “what the consumer wants, not our own feelings about what the game of golf should be.”

This was certainly a timely approach. The golf industry as a whole has had a difficult decade, at least in America, its biggest market. Since 2000, according to the National Golf Foundation, the number of players has barely risen. The number of “core” players, who visit a course eight or more times a year has dropped from 17.7m to 15m.

So Mr Fellows hired a head of marketing from Unilever and a head of manufacturing from Revlon. He claims to have turned a “not very sophisticated” production process into an industry leader. Innovation, the firm's great strength, had previously been “catch as catch can”; now it is highly orchestrated, with more frequent and carefully timed product launches. The firm has devoted a lot of effort to researching the demand for and then marketing a new square-headed driver, the FT-i. Mr Fellows is also looking to turn Callaway into a lifestyle brand by stretching it beyond golf into sporty clothing.

The essence of a consumer-goods firm, says Mr Fellows, is a “focus on the external environment, to expand the market by bringing people outside in”. In golf, one obvious area for growth is abroad, especially developing countries. Mr Fellows is a keen supporter of the Royal and Ancient Golf Club's campaign to reintroduce the sport to the Olympics (which could yet happen, though no sooner than 2016).

Birdies and bullseyes

Another obvious strategy, though a more controversial one, is to make golf more “consumer-friendly”—meaning easier. Golf's rulemakers have tended to focus on maintaining the integrity of the game for the best players, which has made life tough for the rest. Callaway has to conform to a welter of arcane specifications: there are regulations about how far from the centre of the club a ball can be hit and still go straight, for example. These are intended to stop Tiger Woods shooting 30 under par, but also make the game less fun for less gifted players. Golf needs to “bifurcate” into a professional sport and a game for the masses, says Mr Fellows. One opportunity is to think outside the old 18-hole, four-hour box. Callaway has recently invested in TopGolf, a business that turns a driving range into a sort of dart board, where players aim at targets and scores are calculated with the help of radio transmitters in the balls.

Mr Fellows also wants to make golf more appealing to women, who are a far smaller proportion of players in America than in, say, Britain or Sweden. Callaway has just launched GEMS, a range of beginner's clubs designed for women. They make it easier to get the ball in the air, something that market research shows women find particularly empowering. A harder task for Mr Fellows will be to persuade America's male-dominated clubs to let women play at weekends and other peak times—or, in the case of Augusta National, home of the Masters, to let them play at all.

Mr Fellows seems to be guiding Callaway out of the rough. Last year sales increased by 10% and profits more than doubled. Over the next three years, he expects sales to grow in the “mid-single digits”, despite the deepening economic gloom. This month many players will be dusting off their clubs for a new season for the first time since the credit crunch began to bite. So far, Mr Fellows says, sales from America's sunbelt have been “reasonably positive”—certainly no worse than par.

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The American economy

The long hangover

Apr 10th 2008 | WASHINGTON, DC
From The Economist print edition

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America's economy is in recession. Don't expect a quick recovery

Get article background

IT MAY not be official but it is increasingly obvious: America's economy has slipped into recession. The latest labour-market figures—a jump in the unemployment rate to 5.1% and the loss of 98,000 private-sector jobs in March, the fourth consecutive month of decline—point to a shrinking economy. So do surveys of manufacturing and services. So does Ben Bernanke, chairman of the Federal Reserve. On April 2nd he told a congressional committee that output was unlikely to "grow much, if at all, over the first half of 2008 and could even contract slightly."

The official judges of American downturns—a group of academics at the National Bureau of Economic Research (NBER)—define a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production and wholesale-retail sales." (Contrary to popular belief, recession does not require two consecutive quarters of falling output.) Though the NBER's wonks will not pronounce for many months, their criteria look increasingly likely to be met.

The question now is: what kind of recession will this be? Shallow or deep; short or long? So far, it seems remarkably gentle, given that many think America is suffering its worst financial shock since the Great Depression. Since December the economy has shed an average of almost 80,000 jobs a month. In most recessions a rate of 150,000-200,000 is normal.

To be sure, this downturn has only just started. The labour market will surely worsen as firms cut back in the face of weaker consumer spending. But a buoyant world economy is still boosting American exports; a fiscal stimulus is on the way; real interest rates are around zero and likely to fall further; and, with the rescue of Bear Stearns, the Fed has given an implicit guarantee to Wall Street. So few forecasters expect outright slump. A liberal enough loosening of fiscal and monetary policy can stop recession turning into depression, and American policymakers have left little doubt that they will use their recession-fighting weaponry freely.

More controversial is the question of how long the weakness will last. Not very, Mr Bernanke told Congress. Growth will strengthen in the second half of the year, nourished by lower interest rates and the fiscal package. In 2009, he suggested, the economy would be growing "at or a little above" its trend rate, which the Fed is thought to put at around 2.5%. Many investors seem to agree that the downturn will be short as well as shallow. Share prices have recovered since the Bear Stearns rescue, even as

economic statistics have been gloomy. The S&P 500 stockmarket index is around 5% higher than it was a couple of weeks ago and is still only 13% below its all-time high.

Others are more pessimistic. In its latest *World Economic Outlook*, published on April 9th, the IMF slashed its forecasts for America's economy both this year and next. It now expects GDP to shrink in every quarter of this year. By the fourth quarter the economy will be 0.7% smaller than a year before. (Only three months ago the fund expected a rise of 0.9%.) Nor does the IMF expect 2009 to be much better: GDP will grow, but at well below its trend rate.

Such a dramatic divergence of official economic opinion is rare. And it matters. Recent recessions, as defined by the NBER, have been both short and shallow: those of 1990-91 and 2001 each lasted eight months, below the post-war average of ten. If the Fed is right, the 2008 recession may be shorter and shallower still. That would be remarkable, given the extent of the housing bust and credit turmoil.

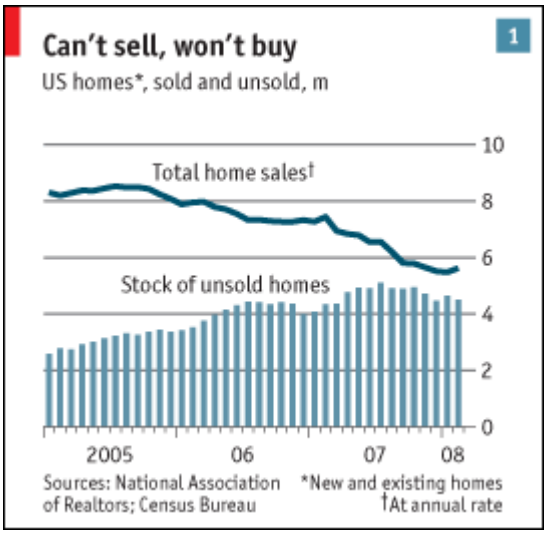
If the IMF is right, weakness will last longer this time. America's new president will be elected against the backdrop of a shrinking economy and on taking office will face months of economic malaise. That in turn will imply bigger budget deficits, and redefine next year's big domestic policy debates: whether to roll back George Bush's tax cuts for the wealthy, for instance, and how ambitiously to reform health care. It could fuel protectionist and populist sentiment, particularly since Americans are already unusually fed up. A new CBS/*New York Times* poll finds that eight out of ten people think the country is “on the wrong track”, the most since the question was first asked in 1991.

The hangover's duration will depend on many things, from the strength of foreign economies to the degree to which American firms cut jobs and investment. But top of the list, given the recession's origins in the property bust and the credit crunch, are the fate of the housing market and the resilience of consumer spending. On both counts, the odds are against catastrophe but on a lasting headache.

By many measures the news from housing is still getting grimmer. Housing starts are at less than half their peak, and builders are continuing to cut back. Although this has begun to reduce the stock of unsold new homes, the frailty of demand means that supply still vastly outweighs sales. At 9.8 months' worth of sales, the stock is at a 26-year high. The official overhang of existing homes (which excludes those repossessed) is not much lower. The excess of supply over demand means that the fall in house prices is accelerating. According to the S&P/Case-Shiller index, house prices are 13% off their peak. They fell at an annual rate of 25% in the three months to January.

The drop in house prices so far has left some 9m people, or 10% of all those with mortgages, owing more than their houses are worth. Among all mortgage borrowers, 6% are behind on their payments; among subprime borrowers, 17% are in arrears. Lenders are already foreclosing on more than 1m homes. The pessimists expect these figures to climb much higher, adding to supply and further depressing prices.

In the short term that is likely. But there are some signs of hope. Demand seems to have stabilised: since November total home sales have been running at an annualised rate of 5m or so (see chart 1). Lower prices have made houses a bit more affordable. And government action may help to ease the drought of mortgage finance stemming from the collapse of the subprime market and the contraction of the market for large (“jumbo”) mortgages, and to limit foreclosures.



At the height of the housing boom in 2006, non-traditional loans, such as subprime and jumbo mortgages, backed nearly 40% of home sales. Some $750 billion of financing disappeared as they shrank. Fannie Mae and Freddie Mac, America's government-backed mortgage behemoths, will fill part of that hole. The Bush administration recently announced changes to these institutions' capital rules, to let them buy up to an extra $200 billion of mortgages. Political momentum is also building to prevent a surge of foreclosures. For now Congress is debating some modest tax incentives. But a more ambitious idea is gaining support: to allow the Federal Housing Administration to refinance troubled mortgages at a discount.

Hit from all sides

Despite these hopeful signs, house prices will continue to fall until the excess inventory is worked off. Even the cheeriest analysts expect that average house prices will continue to fall this year. Worse, house-price deflation is only the first element of a quadruple whammy that is thumping American consumers. The other three elements are tougher credit conditions; a deteriorating labour market (with unemployment on the way up and wages slowing); and high commodity prices pushing up the cost of fuel and food.

Weekly private-sector wages rose by 3.6% in the year to March, the slowest pace since mid-2003. Headline consumer-price inflation is likely to have topped 4% in the same period, so for many real pay is falling. Economists at Goldman Sachs reckon that consumers' real discretionary cashflow—their income plus any new credit minus debt service and spending on essentials—has been shrinking since late last year.

Faced with all this, no wonder Americans are glum. The forward-looking bit of the Conference Board's measure of consumer confidence is at depths not seen since the recession of 1973. Indicators of financial stress outside housing, such as delinquencies on car loans and credit cards, are rising. And consumer spending, after years of resilience, has finally cracked. Not all economists share the IMF's view that spending is actually falling, but none doubts that it is at best barely growing. Because it makes up 70% of total demand, its feebleness does much to explain why the economy has tipped into recession.

On all four counts—house prices, credit, the labour market, and fuel and food prices—the consumer's position is likely to worsen in coming months. Granted, the imminent fiscal stimulus should help. Between early May and mid-July $117 billion will be paid out in tax rebates. The average American household with two children will get a cheque from Uncle Sam for up to $1,800 and will spend at least some of it.

Unfortunately, most of the forces dragging down consumer spending are likely to persist long after the cheques have been banked. Even with stronger exports, growth is likely to be too sluggish to raise incomes by a lot or offer much support to employment. Looser monetary policy will cushion but not avert financial deleveraging. Lending standards are usually tight for years after credit busts, not months. And by most estimates less than half the likely losses in America's financial sector have been written down. Meanwhile, lower house prices will reduce both homeowners' wealth and their potential collateral.

Even when house prices eventually stop falling, they will not suddenly soar. After years of tapping rising housing wealth to finance their consumption, Americans will need to build wealth the old fashioned way, by saving more. At 0.3%, the household saving rate is above its all-time nadir, but not by a lot (see chart 2).

No one knows by how much, or for how long, America's economy will be weighed down. The IMF's gloom is based in part on its reading of history. An analysis by the fund of post-war housing busts in rich countries, written in 2003, suggests that crashes typically last about four years and are often accompanied by banking crises. Economies end up 8% smaller, on average, than they would have been had they carried on growing at pre-crunch rates. Perhaps this time will be different, and the hangover will soon be gone. But given the scale of America's housing binge and of the financial crisis the bust has spawned, that seems unlikely.

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Inflation in India

Shooting the messenger

Apr 10th 2008 | DELHI
From The Economist print edition

The Indian government's knee-jerk response to inflation is as worrying as the rising prices

Get article background

IN COLONIAL times, the Coronation Building in old Delhi was one of the city's most prestigious hotels. Today, it is home to a commodity-futures market. But you would not know it. The Rajdhani Oil and Oilseeds Exchange is hidden among a cluster of small shops and peopled by men in kurta pyjamas, their hair dyed with henna, reclining in the afternoon heat under rusted fans. Over an ageing intercom, they take orders to buy and sell mustard seed and jaggery for delivery one or two months hence. The day's opening and closing prices are chalked on a blackboard.

The blackboard shows that prices of the two commodities have fallen in recent weeks. This will come as a relief to India's policymakers, who are frantically seeking to suppress a nasty bout of commodity-price inflation. On April 4th the Ministry of Commerce and Industry revealed that wholesale-price inflation, the measure most closely watched by the Reserve Bank of India (RBI), the central bank, rose to 7% in the 12 months to March 22nd, its highest rate since December 2004. This price pressure is worrying. But the government's panicked response to it is even more so.

Behind the jump in inflation were higher prices for fuel, food (including edible oils) and metals. The price of iron ore leapt by 46%. This has spooked the government, which faces elections in several big states as well as a national poll before next spring. In response, it has cut import duties on edible oils and banned the export of pulses and rice (except for basmati rice). It even briefly banned the export of edible oils, such as coconut oil, much to the chagrin of Keralite emigrants to the Gulf, who swear by the stuff to keep their hair black and their joints flexible.

Steelmakers in particular have felt the sharp edge of the government's resolve. The Steel Authority of India (SAIL), a state-owned steelmaker, boasts that “there's a little bit of SAIL in everybody's life”, a slogan that runs above pictures of metal bridges, pipes, jugs and even dog-food bowls. After prices rose by more than 20% in the first three months of the year, everybody's life became a bit dearer. Carmakers and scooter-makers protested to the government. Dog-owners no doubt joined them in spirit.

The government threatened to add steel to its list of 15 “essential commodities”, which would allow it to dictate the production and distribution of the alloy. In response, steelmakers “voluntarily” agreed to cut the prices of steel bars used in construction and the corrugated sheets that poor households use for roofing. But steelmakers complain that they are merely passing on the rising costs of coke and iron ore. They fear being caught between “the two prongs of a pincer”, according to the Indian Steel Alliance, an industry group.

Commodity traders, such as the ones reclining in the Coronation Building, fear they may be next in line. Last year the government banned futures trading in two types of bean, rice and wheat, arguing that speculators were driving up prices, beyond what the fundamentals would dictate. Some in the leftist parties, on whose support the government relies, now argue it should extend the ban to other commodities, such as edible oils and perhaps even iron and steel.

This would be like “shooting the messenger”, argues B.C. Khatua, chairman of the Forward Markets Commission, which regulates futures exchanges. Before they were shut down, he points out, the futures markets conveyed the message that prices of wheat and rice would continue to rise. Sure enough, that is what happened.

Banning futures trading would do little to curb prices, especially for commodities like edible oils that are heavily imported. But it would arrest the development of India's financial system, which is

finally growing more sophisticated. Since 2003, the government has allowed trading in future contracts for many commodities. One of the two main exchanges, the Multi Commodity Exchange, averages volumes of over $3 billion a day. The Rajdhani exchange turns over about $20m a month.

Great hopes for such markets were expressed this week in a report by a ten-man committee on financial-sector reform, appointed by the planning commission, and led by Raghuram Rajan, now of the Chicago Graduate School of Business, and formerly chief economist of the IMF. It laments "the knee-jerk reaction to ban [markets] or intervene in them whenever they send unpleasant messages."

The futures market provides farmers with a sneak preview of the prices they will face in the months ahead, which should allow them to make an informed decision about what to sow. In principle, futures contracts should also allow farmers to lock in a price for their crops, insulating them from the vagaries of the spot market. At the moment, farmers are too small to participate in the market directly. But Mr Rajan's report suggests that small banks could aggregate the demands of farmers up to a practical size.

"Just as it is counter-intuitive to steer in the direction of the skid", Jagdish Bhagwati of Columbia University once wrote, "it is difficult to persuade the layman" that the best solution to scarcity is a market price, which encourages supply and discourages demand. As Bajrang Lal Goyal, a trader who joined the Rajdhani exchange 40 years ago, points out, India's winter crop is just days away from hitting the market. If the politicians who bash the futures market could be bothered to look at the message it is conveying, they would see that the prices of several sensitive commodities are already on their way down. Just in time, that is, for the elections.

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American banks

Not so thrifty

Apr 10th 2008 | NEW YORK
From The Economist print edition

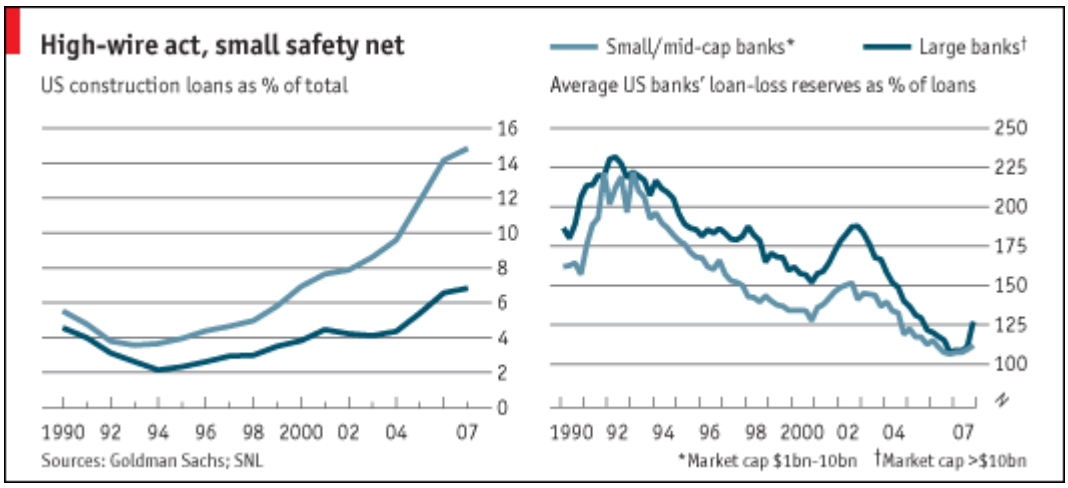
The bust is starting to catch up with regional lenders

WHAT price salvation? For Washington Mutual (WaMu), a Seattle thrift that grew into America's sixth-biggest bank and came a cropper in subprime mortgages, the tab is $10 billion and counting. Having already scraped together $3 billion in fresh capital, this week it secured a further $7 billion from investors led by TPG, a buy-out firm. WaMu hopes the injection will help it through a horrendous year; loan losses for the first quarter alone will be $1.4 billion. The support comes at a cost: the deal dilutes existing shareholders' capital by half and the dividend will shrivel. It is hard, too, on WaMulians, as employees liked to be known in happier times when their home-loans motto was “Be Bold”. Some 3,000 will go as 186 mortgage offices are closed.

Wall Street's giants and their foolish forays into debt-market exotica have hogged the headlines—and most of the rescue capital doled out so far. But WaMu's whip-round shows that the desperation is spreading to Main Street. As the economy flirts with recession, attention is turning to America's more than 8,000, mostly small, regional lenders. Spared the worst so far, their first-quarter numbers will be ugly.

Most regional banks face different problems from WaMu. Muscled out of mortgages, credit cards and car loans by the big boys during the boom, they piled into what was left behind—in particular, commercial property. Growth in construction loans (for land purchases and home- and office-building) peaked at 36% a year in early 2006, leaving small banks horribly over-exposed (see left-hand chart, below).

Gerard Cassidy, of RBC Capital Markets, reckons that on several measures things look worse for banks than they did going into the recession of the early 1990s. Then, construction loans made up around 53% of their tangible equity plus loan-loss reserves; now the figure is 65-70%. During the benign past decade and a half, managements “forgot what a downturn looked like,” he says. That is certainly true of Chicago-based Corus Bankshares, more than 80% of whose portfolio comprises condominium-construction loans.



Recent cuts in short-term interest rates should help banks, by steepening the yield curve (the difference between long and short rates) and thus boosting the spread they can earn. But, as Brian Foran of Goldman Sachs points out, they are a mixed blessing. In the short term, rate cuts put pressure on “asset sensitive” banks whose loans are repriced faster than their liabilities. Most small and medium-sized banks fall into this category, whereas big banks tend to be “liability sensitive”. More worryingly, smaller banks have been slow to build their reserves against dud loans, even though these are coming off historic lows (see right-hand chart, above).

That is not all the banks' fault. In the past, they had latitude to squirrel away extra reserves if they felt a boom was ending. With regulators more worried these days that banks might try to smooth their earnings, that has become harder to do. Accounting rules now encourage a backward-looking, quantitative approach. “We are told to take the past few years as a guide. But what good is that if they've been unusually good?” asks one banker. Some lenders complain that they were prevented from raising provisions in early 2007, at the first signs of trouble.

The regional banks do at least have plumper cushions than they did going into the last recession. According to the Federal Deposit Insurance Corporation, a bank regulator, banks with assets of less than $1 billion enjoy a risk-based capital-to-assets ratio of 15%, compared with a still-decent 12.5% for big banks.

But property losses are still hard to gauge. Ominously, builders are selling land for as little as 20 cents on the dollar. Mr Cassidy expects around 150 banks to go bust over the next two to three years, a small fraction of the number that failed in the savings-and-loan crisis of the 1980s and 1990s but a sharp rise all the same: just three have folded in the past three years.

Many others will survive only with fresh capital. The WaMu infusion has raised hopes that private-equity groups will serve the same role in shoring up regional banks as sovereign-wealth funds have done for the biggest (though perhaps with better timing). Kohlberg Kravis Roberts, a large buy-out firm, is said to be mulling an investment in National City, a beleaguered Indiana-based bank.

For banks that have resisted the temptations of the boom, this looks like a golden chance to snap up rivals cheaply. (JPMorgan Chase made a lowball offer for WaMu soon after buying Bear Stearns, but was rebuffed.) Regional banks can also hope to recapture market share from non-banks, as traditional sources of funding, such as deposits, become more important.

A few managed to show self-restraint. Westamerica Bancorporation, a Californian lender, was lambasted for backing away from high-yielding property loans and allowing its portfolio to shrink. But now it is reaping the rewards: its share price has risen by 20% this year while most rivals' have slumped. It has been canny with its liabilities, too: over a third of its deposits pay no interest, a trade-off its small-business clients are willing to make in return for sharp service. As a result, its funding costs are half the industry average.

The lesson: build a cheap, stable deposit base, and don't be shy not to lend. Or, as David Payne, Westamerica's boss, puts it: “If it grows too fast, it's a weed.”

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Private equity

Restoration

Apr 10th 2008
From The Economist print edition

The kings of capitalism want their thrones back

SOVEREIGN-WEALTH funds did not do it. Joe Lewis, the billionaire investor who bet and lost on Bear Stearns, definitely did not do it. Will private-equity firms be any more successful at calling the end of the credit crunch?

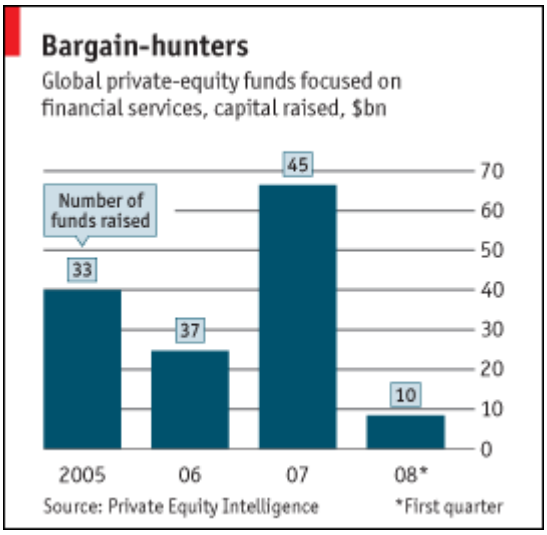
They seem ready to do so. TPG, a large buy-out group, led the $7 billion injection of capital into Washington Mutual (WaMu), described in a related story. TPG is also among a trio of big-name private-equity firms (Apollo and Blackstone are the others) that are reportedly negotiating with Citigroup to snap up $12 billion-worth of leveraged loans that have been stuck on the bank's balance sheet since the credit markets froze. A deal may be announced when Citi reveals first-quarter results on April 18th.

The transactions highlight two things. One is the changed environment in which private-equity firms are operating. Frothy markets, public-to-private deals and easy lending terms have given way to distressed prices and lesser degrees of leverage: TPG is using $2 billion of its own cash to take a minority stake in WaMu, which will remain firmly listed.

The other is that the industry still has lots of capital to put to work, no small matter in the current environment. Funds continue to flow in. The amount of money raised by America's private-equity funds in the first quarter of 2008 grew by 32% compared with the same period of 2007, according to data from *Private Equity Analyst*, a newsletter.

Distressed debt is one of the areas taking up the slack left by shrinking volumes of splashy leveraged buy-outs. Shrugging off the embarrassment of seeing one of its fixed-income funds blow up in March, Carlyle Group this month closed a $1.4 billion fund to take advantage of bargain prices. Apollo, which has a long involvement in distressed debt, revealed plans on April 8th for an initial public offering.

Funds focused on the ailing financial sector have since last year attracted particularly large amounts of capital (see chart). That is a change. Banks are already highly leveraged, so they used to be considered less suitable for the traditional private-equity strategy of ladling on lots of debt. As borrowing has become more expensive, the accent on gearing up has softened. Buy-out types now talk enthusiastically of banks as being “pre-levered”.



Buy-out firms have to bring more to the table than a keen eye for value, however. True, they can sometimes benefit from inside knowledge. The talks with Citigroup are thought to involve leveraged loans made to TPG, Apollo and Blackstone themselves. TPG's founder, David Bonderman, knows WaMu well, having already had one spell on the bank's board. It may even suit private-equity firms to buy the debt of companies that then default, in order to gain control of them cheaply. But picking the bottom of falling markets is something that investors can do for themselves without paying hefty fees.

With financial engineering a fading memory, the real value of private equity lies in improving the performance of portfolio companies. “As leverage multiples go down, operational improvements will drive a higher proportion of the industry's required returns,” says Paul Mullins of Boston Consulting Group (BCG). Despite appearances, that shift in emphasis was well under way even before last summer. BCG analysed 32 companies that had been bought and sold by European private-equity firms before the

crunch: more than half of the uptick in the value of these companies was due to higher sales and margins.

Whether private-equity firms can work this kind of magic in financial institutions remains uncertain, however. Regulators are jumpy about who runs banks: TPG has reportedly promised WaMu's supervisor that it will not use its holding to exercise control. That rather defeats the point.

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The IMF

Selling the family gold

Apr 10th 2008 | WASHINGTON, DC
From The Economist print edition

The IMF launches a financial rescue plan—for itself

IT HAS whipped many developing countries into shape. Now it is time for the IMF to apply the birch to its own back. With crisis lending down, the fund has not been generating enough income to cover its $1 billion budget. By 2010 its deficit will be some $400m a year. It has enough reserves to tide it over. But ultimately it needs its own financial rescue plan.

Which is why, on April 7th, the fund's board agreed to cut costs and boost income. A quarter of the gap will be plugged by cutting costs, including 380 jobs (or 15% of the total). The rest will come from new income sources. It wants to sell about 12.5% of its vast gold stocks, which amounts to 403.3 tonnes, and create an endowment with the proceeds. Using a (conservative) price estimate of $850 an ounce, the fund reckons such a sale would raise about $11 billion. In order to avoid upsetting the gold market, it would be done over several years.

The fund also wants to broaden its investment strategy. At present it may invest its reserves only in government bonds. In future, it hopes to boost returns by half a percentage point a year by broadening its portfolio to include corporate bonds and perhaps shares.

Is the doughty IMF to become an international version of a sovereign-wealth fund—ready to help recapitalise American banks or invest in a private-equity firm? Hardly. Conflicts of interest would be legion, so the investments will be made slowly and conservatively. Buying assets beyond government bonds requires a change in the fund's Articles of Agreement, which demands parliamentary ratification in many of the IMF's 185 member countries. The gold sales, too, face hurdles. America's Congress must approve—and hitherto senators from gold-producing states such as Nevada have been loth to agree. But with gold still near $1,000 an ounce, they may just be amenable.

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Japanese finance

The bank that could not say no

Apr 10th 2008 | TOKYO
From The Economist print edition

Why bureaucrats should not play banker

MANY people are looking to Japan for lessons on how (not) to manage a credit crisis. ShinGinko Tokyo, a bank founded in 2005 by the city government, exemplifies the folly of letting public servants get too involved in the solution. In three years of mismanagement, it has burned through $1 billion.

ShinGinko was conceived by Tokyo's populist 75-year-old governor, Shintaro Ishihara (best known abroad as the co-author of the 1990s book “The Japan That Can Say No”, which confronted an American stereotype of Japanese meekness). He won re-election in 2003 promising to create a bank to lend to small firms, at a time when big banks were busy cleaning up their balance-sheets. ShinGinko was capitalised with ¥100 billion ($935m) from the city and around ¥20 billion from companies including NTT and Hitachi.

The bank was in trouble from the start. It was staffed with former bureaucrats and others with little banking experience. Loans were approved by a computer scoring-system based on a firm's financial results, without checking their accuracy. Few applications were rejected. Japanese media relished reporting tales of borrowers who never made a single repayment and whose place of business vanished overnight.

Moreover, by the time ShinGinko was up and running, lending to small firms was on the upswing anyway, notes Yoshiyuki Yamaguchi of Rikkyo University in Tokyo. Whereas firms with good collateral might borrow from big banks at 2% interest, ShinGinko's rates, directed at riskier firms, reached as high as 8%. To attract deposits, it offered eight times more interest than other banks.

The upshot was that it squandered ¥50 billion in operating expenses such as a pricey and underused IT system. And it lost another ¥50 billion from irrecoverable or non-performing loans. Managers hid the problems from the bank's board (and may yet face criminal and civil suits). Controversially, the bank even bought artwork from a group associated with Mr Ishihara's son. All the while, the Financial Services Agency, a regulator, has remained strangely silent, probably fearing that to delve too deeply into the problems might push the politically sensitive bank over the brink.

In late March the Tokyo government approved a ¥40 billion injection, in part to prevent ShinGinko's capital ratio from slipping below the mandatory 4%. Yet more than 70% of Tokyo residents oppose the bail-out, and 60% of the members of Tokyo's main association of small and medium-sized firms say the bank is useless and should be shut. Mr Ishihara was right: the Japanese can indeed say no. The trouble is, he is not taking a blind bit of notice.

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Chinese property

Cracks in the edifice

Apr 10th 2008 | HONG KONG
From The Economist print edition

Another mania in China comes to a juddering halt

OF ALL the easy ways to make a killing investing in China in recent years, the easiest by far was property. Eight out of the ten richest people in the country, according to the benchmark *Hurun* list, derived all or most of their fortunes from it, including the richest, Yang Huiyan, a 27-year-old woman who is the largest shareholder of a high-end residential developer called Country Garden. Had all gone according to plan, she might have faced competition for the top slot from another property mogul, Hui Ka Yan of the Evergrande Real Estate Group. However, in February, Evergrande's planned initial public offering was pulled for lack of interest. Meanwhile Ms Yang's fortune, once $17.5 billion, has declined by half (as have those of other tycoons on the *Hurun* list, on average). Her company, which went public to great acclaim a year ago, has not found the going so easy since.

Although stockmarket sentiment towards China's property developers has plummeted, there does not yet appear to be a comparable drop in the prices of flats or rental rates for offices. Price appreciation has slowed (see chart) but there are no outright declines, at least in the national statistics. Unofficially, however, there are reports that prices in some regions may well be under pressure.

In Shanghai, for example, many developers have retained the list price for units but are offering “rebates” which can take 10% or more off the purchase price. Numerous units are being held off the market in the hope of a recovery. Worst affected are the big cities of southern China, notably Shenzhen, which only a year ago was an extremely hot market. The average price of flats in the city has fallen by 28% since October. There are reports that the value of some may have dropped by half, a decline on a par with some of the worst-hit parts of America. The areas around Beijing have been more resilient but the rate of appreciation has clearly slowed.

In Hong Kong, many believe the property market will hold up, thanks mainly to the currency peg to the American dollar, which has resulted in negative real interest rates. The usual post-lunar holiday surge in sales, however, has been disappointing. The big estate agents, optimistic by nature, still predict office rents will rise by 10-20% but the frenetic activity of last autumn has ceased. Many of the large banks, which were desperate for space in October, are sacking employees today.

Explanations for the crunch are not hard to find. In southern China business conditions have deteriorated, notably for exporters. The government has tightened credit where it senses property speculation. Rather than build portfolios of stocks, it had become popular in China to purchase multiple flats as an investment, until the government late last year ordered 40% down-payments and imposed transaction taxes on all but primary homes (a policy that, in light of the current distress, is now being reconsidered).

In a frank admission, Ronnie Chan, chairman of Hang Lung Properties, one of the leading developers in China, wrote last month that the second half of 2007 was characterised by a “land grab” on the mainland with no price discipline. As examples, he referred to a site in western China sold at government auction to a competitor for 20 times what he had paid for a similar property the year before; another in Shanghai went for ten times as much. Recovering the cost of the investment would take years, he predicted. Few would be surprised if some of the more aggressive firms do not have the financial strength to survive that long.

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Finance in the Middle East

Gender gulf

Apr 10th 2008
From The Economist print edition

Women in the Gulf seek to prise open the male-dominated world of banking

THE Prophet Muhammad's first wife, Khadija, is known as “the pure one”. She was also a wealthy businesswoman who supported her husband financially, it is believed, in the earliest days of Islam. Her example is often cited in conservative Gulf states by working women increasingly fed up with having to entrust management of their money to husbands or male relatives. Laws based on Islam have guaranteed women's right to own property for centuries; many have inherited wealth, and, more recently, earned it. There is no religious law barring women from managing money. Yet religious and tribal customs mean conservative families frown on women mixing with unrelated men, even for the dullest of business purposes. In Saudi Arabia, women were legally required to conduct business through a male agent until 2004.

Reuters

The bank has an eye on you, even when your husbands don't

That law has finally gone, but its ramifications live on. A married businesswoman recently faced flogging for sipping a coffee with a male colleague in a Starbucks in Riyadh. The constraints are less severe in the smaller Gulf monarchies of Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates (UAE). But many women still avoid face-to-face meetings with unrelated men. That makes the male-dominated world of banking particularly hard to penetrate.

There are ways of getting round the problem. Saudi retail banks have set up segregated branches that only women can enter. “Ladies' banks” are also cropping up in the UAE. Segregation is a controversial issue, but the facilities at least allow women to manage their finances independently of prying fathers, brothers or husbands. Rising divorce rates give added motivation for women to hide away some money, sceptical of the help they will get from mostly male judges.

Increasingly, wealth managers are also realising that women in the Gulf region are sitting on fortunes in cash, land and even jewellery. According to Amanda McCrystal of Bramdiva, a London-based wealth-consultation service for women, a few years ago there was a boom in online share-trading by women in the Gulf, since they could do it from the privacy of home. Many were singed by a regional crash in 2006. Some will not return; many of those who do may seek professional advice.

Sandy Shaw, who heads Middle Eastern operations at Coutts, a private bank based in London, says about a quarter of her clients are female, and are keen to keep control of their affairs, especially to ensure that their estates will pass to their children when they die. Aware of this, a small number of Western female bankers now travel regularly to the Gulf to hold meetings with female clients. Again, one of the attractions is privacy; they can visit a Saudi woman at home without her husband present, which a male banker normally could not do. Women may require different products from men, too. In Saudi Arabia and

Qatar, for example, they have more of an appetite for lower-risk, capital-protected investments. But this is likely to change as they become more experienced investors, says Ms Shaw.

In the UAE, Dubai World, a government holding company, has set up Forsa, an investment company run by women for women. Its staff scorn what they call “pink-ribboning”: superficial changes to market products to women, like making a credit card pink. Across the region, more such firms would be helpful. This is not only because women need opportunities to work. The finance industry needs them, too: it is growing so fast that it is struggling to recruit and retain staff.

The message has sunk in in Bahrain, where a third of finance-sector employees are female, and in Kuwait, where, including property, the figure rises to 40%. Some employers there say they find female bankers work harder than men. Yet in Saudi Arabia, official statistics indicate that just 5% of Saudis working in finance and property are female. And across the region, it remains hard for female businesswomen to get loans, especially if they are not from prominent families. Even in Bahrain, where nearly one-third of businesses are registered by women, “sometimes women can only get a business licence in their husband's name, especially if they have less capital,” says Aamina Awan, who is researching female entrepreneurship in the region. Khadija may be a role model, but there is a long way to go before Gulf women can freely emulate her business success.

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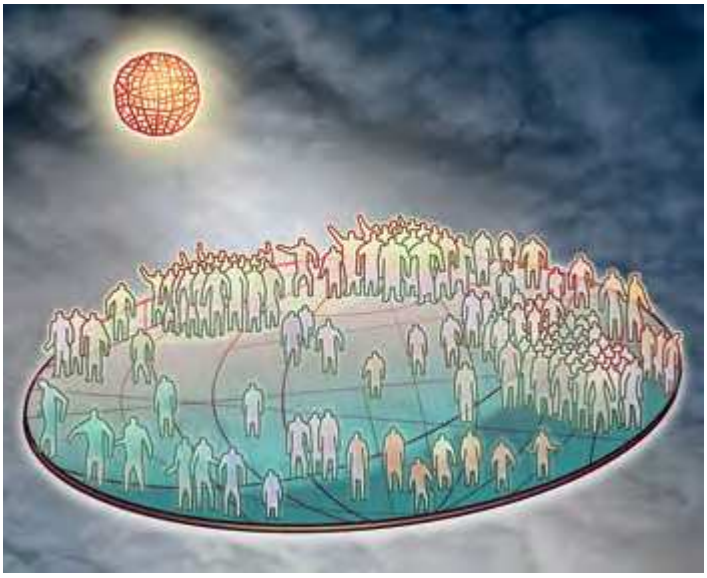
Economics focus

Policing the frontiers of finance

Apr 10th 2008
From The Economist print edition

Is foreign capital a luxury that poor countries can live without?

Illustration by JAC



WHEN Hank Paulson, America's treasury secretary, urged China to liberalise its capital markets earlier this month, he sensed a hardened reluctance in his hosts. “There's no doubt that what is happening in the US markets is clearly giving the Chinese pause,” he said. America's subprime meltdown is not, it seems, the best advertisement for unfettered finance elsewhere.

Against this backdrop, Dani Rodrik of Harvard University and Arvind Subramanian of the Peterson Institute, in Washington, DC, have published a timely reappraisal of financial globalisation.* They conclude that it is far from obvious that developing countries benefit much from opening up to global capital. In principle, the free flow of capital across borders makes funds available more cheaply to poor countries and, by lifting investment, boosts GDP and raises living standards. The trouble is, economists have struggled to establish a strong link between freer capital flows and speedier economic development.

That has not stopped researchers from looking, and many believe a tangible connection will soon be found. Perhaps the effect is not picked up in studies because capital flows are hard to measure accurately, argue the optimists. Messrs Rodrik and Subramanian are not convinced: measurement error bedevils many studies, but that has not barred researchers from establishing that policies to improve education or trade are good for growth.

Perhaps foreign capital helps indirectly—by disciplining policymakers or by promoting reforms that improve the financial system. The authors say it is possible to make the opposite argument and find indirect costs. Plausibly, lifting restrictions on capital flows could undermine the domestic financial system because spendthrift governments can tap a larger pool of funds abroad. Also, the well-off have less incentive to lobby for reforms at home if they are free to store their wealth overseas.

Perhaps, then, the gains from globalised finance are latent and will be unleashed once catalysing reforms are in place? Maybe they will. But the wish list of complementary measures is difficult to tick off. Economies might reap the benefits of foreign capital more fully if property rights were stronger, contracts were more enforceable, and if there were less corruption and financial cronyism. But the authors point out that if poor countries could carry out such ambitious reforms “they would no longer be poor” and financial globalisation would be “a clearly dispensable sideshow”. With so much else to do first, liberalising capital flows would not be an obvious policy priority.

Foreign capital ought to be good for countries that have profitable ventures that lack funding because of low savings at home. But Messrs Rodrik and Subramanian argue that for many countries, it is not low savings but a shortage of good investments that is the binding constraint. Weak property rights, poorly enforced contracts and the fear that profits will be siphoned away make it hard to conceive of ventures that might generate a reliable return. When investment opportunities are scarce, capital inflows simply displace domestic savings and encourage consumption.

Cheap exports, not cheap money

Whatever their misgivings about cosmopolitan capital, the authors do not deny that deeper financial markets in general help to foster prosperity. Even in economies short of good investment projects, a sturdier channel connecting domestic savers and borrowers will help growth. The more domestic savings can be put to work, the less need is there for foreign capital, and using local funds helps keep the exchange rate down and promotes export growth. By contrast, encouraging foreign capital to flood in can put upward pressure on the exchange rate, making exports less competitive. In some circumstances, capital controls may be justified if they keep the currency cheap and promote growth.

Why do the authors make such a strong case for export-led growth as a means to development in poor countries, even if it is at the expense of more open capital markets? First, they believe, exports are a force for institutional reform. A firm making clothes to sell abroad demands consistent state regulation, reliable transport links and enforceable contracts with suppliers to a degree that a barbershop serving the domestic market does not. Second, exporters foster skills, technology and expertise that can fruitfully spill over to other enterprises.

Messrs Rodrik and Subramanian conclude that with the benefits of liberalised finance under the microscope in rich countries, it is time for more subtle thinking about the global picture. “Depending on context and country,” they write, “the appropriate role of policy will be as often to stem the tide of capital flows as to encourage them.”

That bold conclusion leaves some troubling issues unresolved. As China's experience suggests, keeping the exchange rate weak in support of export-led growth becomes harder to sustain over time. Nor is it easy to keep foreign capital out. Capital controls can be evaded by adjusting trade invoices: exporters can bring funds in secretly by over-invoicing for foreign sales. The authorities can use sterilised intervention to stop inflows pushing the exchange rate up, but this imposes its own costs on the economy—in terms of higher interest rates or a distorted allocation of credit.

It is possible too that over time capital inflows are becoming less risky and the collateral benefits more tangible. And more stable direct investments account for an increasing share of capital inflows. Countries will ultimately have to come to terms with global capital and the choice is not only whether to embrace or resist it. There is a third option: find ways to manage it. After all, few would now argue that financial progress should not be policed at all.

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* “Why Did Financial Globalisation Disappoint?”, March 2008.

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Palaeontology

Seeing the light

Apr 10th 2008
From The Economist print edition

ESRF

Palaeontologists can now look inside fossils without damaging them

UNTIL recently, techniques for studying the quick and the dead evolved together. Biologists started by cutting things and looking inside them. So did palaeontologists (though they did their “cutting” with grindstones rather than scalpels). Then X-rays were discovered. These penetrate stone, as well as flesh, so fossil-lovers took to them with enthusiasm. Thus was the field of palaeoradiology born. X-rays evolved into computerised tomography (CT scanning)—a boon to doctors and palaeontologists alike. But now things have advanced further still. These days fossil-scientists at the cutting edge, so to speak, are using machines called synchrotrons to look inside their specimens.

CT scanning has achieved a lot. It works by using X-rays to cut virtual layers through a specimen (indeed, the field is sometimes known as virtual palaeontology) and then adds those layers together to produce a three-dimensional image. But a synchrotron can do far more. Synchrotrons are machines that accelerate subatomic particles (in this case electrons) in a circle. That produces X-rays so powerful that they knock the socks off those from a CT scanner. And because the beam is powerful, not all of it need be used. Instead, a single wavelength can be selected to produce the X-ray equivalent of a pure-colour beam of light. That allows more precise pictures to be taken, as Paul Tafforeau, a palaeontologist at the European Synchrotron Radiation Facility (ESRF) in Grenoble, has just shown. He has created a remarkable series of images of previously invisible invertebrate fossils preserved in amber.

Slices of life

Dr Tafforeau first saw the light, as it were, in 2000, when he found himself unhappy at having to cut up the teeth of fossil primates in order to study the fine details of their enamel. This led him to ESRF, where he has since worked on “every kind of fossil you can imagine”. He has made images of algae, of the bones of embryonic dinosaurs hidden inside petrified eggs, of the jaws of Neanderthal man and even of a tiny 580m-year-old fossil embryo from China, preserved after only a few cellular divisions, and one of the earliest known examples of multicellular life. In 2006 he pictured the Toumai skull, from a fossil ape thought to have lived about 7m years ago and reckoned to be the oldest known ancestor of humans. He and his colleagues collected 53 gigabytes of data (enough to fill 75 CDs) from this specimen alone.

It is amber, though, that has been his most recent venture. And in only a few days of scanning he has revealed hundreds of new fossils for the first time.

Amber is fossilised tree-resin. When that resin first leaked, it often trapped insects, spiders and other small creatures, which are rarely preserved by other kinds of fossilisation. Amber fossils are thus crucial to an understanding of how insects and other invertebrate critters have evolved. The amber which Dr Tafforeau studied comes from Charentes and dates from the Cretaceous period, the last in which the dinosaurs flourished and also the time when flowering plants first appear in the fossil record. Charentes amber is thus an important archive. Unfortunately, 80% of it is opaque—at least to light. But X-rays can see through it, as Dr Tafforeau has demonstrated brilliantly.

In collaboration with Malvina Lak, a research student, and a group of colleagues from the University of Rennes, he took pictures of 640 pieces of amber from Charentes, and found 356 tiny fossils, including fragments of plants as well as wasps (pictured above), flies, ants and spiders.

The blocks of amber were run past the synchrotron twice. The first run was a rough and ready two-dimensional screening designed to work out which pieces contained interesting inclusions. The second studied the fossils in detailed slices taken while the sample was rotated. From this, the researchers extracted a “virtual insect” that can be viewed on screen from any direction. It can even be sent to one of the new generation of so-called 3D printers, which produce scale models in plastic, layer by layer.

That is important, for when a scientist discovers a new species, the original specimen (or holotype) on which his description is based has to be deposited in a museum, so that other researchers can examine it. In the case of an insect buried in a cloudy piece of amber, this plastic printout can be deposited, alongside the otherwise invisible original.

While Dr Tafforeau has focused on the insects, Phil Donoghue, a geologist at Bristol University, has been using another synchrotron (at the Paul Scherrer Institute in Villigen, Switzerland) to look at fossil plants. In doing so, he hopes to solve what Darwin himself referred to as an “abominable mystery”: the evolutionary origin of flowering plants.

Dr Donoghue observes that a great deal of what is known as molecular phylogeny has been applied to this problem, but without success. (Molecular phylogeny uses genes to try and work out evolutionary relationships.) Synchrotron images mean that the tried and trusted methods of comparative anatomy, with which Darwin would have been familiar, can be brought back into play, since X-rays can reveal minute details of the reproductive organs of fossil plants, right down to individual cells and pollen grains.

A side effect of all these digital data is that they encourage the sharing of specimens, albeit virtual ones. The University of Texas's digital library, known as Digimorph, for example, contains hundreds of specimens and nearly a terabyte of data. Virtual palaeontology thus promises to shake up a profession that once jealously hoarded items that were too precious or fragile to share, or were too rare to sacrifice to destructive techniques. It may even allow the study of valuable specimens that are held by private collectors. So, as the tools multiply to make the invisible visible, an entire world of evidence is available without anyone having to lift a geological hammer.

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Autism

Not more, just different

Apr 10th 2008
From The Economist print edition

An explanation for the increasing incidence of autism

FASHION is a strange thing, and many fields are susceptible to it—not least, medicine. There has, for example, been a vogue (among commentators, if not among doctors) to ascribe the rising number of cases of autism diagnosed over the past couple of decades to childhood vaccinations against measles, mumps and rubella. That this is fashion rather than reality is suggested by the fact that the explanation proffered in Britain has been that such vaccines provoke an immune response that damages the nervous system, whereas Americans have blamed residual mercury in the same vaccines.

It is now pretty well established that vaccination does not create autism. But the rise in the number of recorded cases is real enough. In Britain, for example, the rate of diagnosis has risen from 50 per 100,000 in 1990 to 400 per 100,000 today. That must have a cause. And one popular hypothesis is that this cause, too, is fashion—but among doctors rather than columnists.

Demonstrating that has been difficult. But a paper in this month's *Developmental Medicine & Child Neurology*, by Dorothy Bishop and her colleagues at Oxford University, goes a long way towards doing so. Dr Bishop reasoned it was unlikely that people now labelled autistic would, in the past, have been thought healthy, but that it was quite plausible they might have been given some other diagnosis. With this in mind, she looked at a group who had been diagnosed as children with a particular condition that was not autism, and rediagnosed them using present-day criteria.

Her volunteers were 38 adults or teenagers who had, as children, been diagnosed as having what is known as developmental language disorder, rather than autism. (The distinction being that although autism involves difficulties in communication it also has other symptoms, such as an inability to empathise with others.) The rediagnosis had two steps. The researchers interviewed the volunteers, of course. But they also interviewed their parents. They asked both parents and offspring questions based on modern tests for diagnosing autism.

The result was that almost a third of her volunteers looked, from the modern point of view, misclassified. Eight fully met the modern criteria for autism. A further four fell into what is known as the autistic spectrum, evincing signs of autism short of the full-blown syndrome.

What were particularly telling were the interviews with parents. Earlier, similar work had explained the observations away as a change in symptoms with age, but the parents of Dr Bishop's volunteers told stories of what are now regarded as autistic symptoms appearing in their children in their early years. Although there is a risk of hindsight colouring such stories, many of them were so vivid that Dr Bishop is convinced they are accurate.

The upshot, subject to larger studies confirming her observations, is that Dr Bishop seems to have confirmed the cause of the recent rise of autism as being a change in the diagnostic criteria. As a good researcher should be, she is cautious and points out that finding one cause is not proof that others are not operating. But it now looks unlikely that there are more autistic people around than there used to be. It is just that it is now fashionable to acknowledge their existence.

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The origin of life

Not that sinister

Apr 10th 2008 | NEW YORK
From The Economist print edition

Why amino acids in living things are left-handed

HOW living creatures evolve has been pretty well understood for the past 150 years. How they came to exist in the first place, though, remains a mystery. Part of the reason for this mystery is that subsequent evolution has done a good job of erasing the evidence. But not a complete one. Some features are shared by all organisms, and may thus go back to the beginning of life. And one of the most bizarre of these features is that a lot of the molecules of which life is made are left-handed.

A left-handed molecule is one that causes polarised light to rotate to the left (ie, anticlockwise). Most molecules which behave this way have a right-handed equivalent that is, in its arrangement of atoms, their mirror image. Ordinary chemical processes cannot tell the difference between the two forms, so they are usually equally abundant. But the enzymes that govern biochemistry are such precise tools that, often, only one-handedness is acceptable. In the case of amino acids, the subunits of which proteins are made, the acceptable form is the sinister one. Many people feel that understanding why this is so would illuminate the origin of life—and two groups of researchers, pursuing separate lines of enquiry, have come up with what may be the pieces of the jigsaw.

One further puzzle is that the amino acids found in meteorites (which are assumed to be similar to those of the primitive Earth) have been modified by a process called methylation into a form that is biologically useless. Nevertheless, since such methylated amino acids are the starting point, that is where Ronald Breslow and his student Mindy Levine, who work at Columbia University, started.

A couple of years ago they revealed the first piece of the jigsaw when they found that an initial imbalance in favour of left-handed methylated amino acids in a solution can be amplified by repeated evaporation. During evaporation, the left- and right-handed molecules mate up and fall out of solution, leaving a left-handed excess. A mere two cycles of evaporation can push a starting ratio that is just 1% in favour of the left to one that is 90% left-handed.

Now, as Dr Breslow has revealed to a meeting of the American Chemical Society, in New Orleans, Ms Levine has discovered a process that favours the production of left-handed biologically active amino acids. The presence of copper in solutions that contain the chemical precursors of amino acids, together with left-handed methylated amino acids to seed the reaction, gives amino-acid formation a sinister bias. When Ms Levine made an amino acid called phenylalanine this way she got 37% more of the left-handed form than the right-handed. With another, valine, the excess was 23% and with alanine, 20%.

The connection between the two pieces of work is that the left-handed methylated amino acids required to seed the second could have been provided by the evaporative process of the first—if, of course, a slightly biased supply of them had previously existed.

Which is where Sandra Pizzarello of Arizona State University comes in. She has shown that the methylated amino acids found in meteorites do, indeed, have a bias of 1% or more in favour of the left-handed, suggesting that methylated amino acids kicking around on the primitive Earth would have shared a similar bias.

The mistake previous researchers made, therefore, was thinking of the methylated amino acids of meteorites as ingredients of life. Actually, if this work is pointing in the right direction, they were merely seeds. Taken together, these results argue that life formed in places with a lot of evaporation going on (suggesting heat) and a significant amount of copper present. This is speculation, of course, but it favours the idea that living things were created in land-locked ponds, rather than at sea, and probably in a volcanic environment. (Volcanic heat would drive the chemical reactions, as well as causing lots of evaporation.) It also suggests that biochemical left-handedness confers no selective advantage. What makes meteoritic amino acids left-handed has yet to be discovered. But it seems just a matter of chance

that the living world is sinister.

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Early warfare

Girls on top

Apr 10th 2008 | VALLEY OF FIRE STATE PARK, NEVADA
From The Economist print edition

Spear-throwers of the world, unite!

IN THE lexicon of relations between women, their menfolk and sport (the golf widow, the soccer mom), there is little mention of the atlatl wife. But several were present on April 6th and 7th in the Nevada desert some 90km (55 miles) north of Las Vegas. The setting was Valley of Fire State Park, a stunning sweep of red sandstone cliffs, 4,000-year-old rock art, wild flowers and air-conditioned mobile homes that played host to the annual meeting of the World Atlatl Association.

The atlatlists, if they may be so called, are a group of enthusiasts who wish to restore to its former glory an ancient art that they fear is in danger of dying out: spear-throwing. To give their quest a certain amount of primitive street-cred they have borrowed the Aztec word for the main piece of equipment involved—not the spear itself, but the device used to throw it. This is a carefully shaped stick just under a metre long which acts as an extension of the human thrower's arm. The spear is balanced along it, with the blunt end snug against a hook. The other end is held by the hurler. The atlatl serves to amplify the hurler's arm movement in a way that allows a stone-tipped spear to be propelled at speeds of well over 150kph. The result, in the hands of a skilled practitioner, is a formidable long-range weapon system.

This is all delightfully eccentric (if no more so than the survival of that other hand-propelled weapon system, the bow and arrow). However, there is a serious point to it, for the atlatl may have played an important part in human evolution.

According to John Shea, an archaeologist at Stony Brook University in New York State who studies the evolution of early projectile technology, the earliest known atlatl is a 27,000-year-old example from France, made of reindeer antler. However, the atlatl's ubiquity in human culture suggests to him that it was invented much earlier, presumably before people first ventured out of Africa about 70,000 years ago.

John Whittaker, an anthropologist at Grinnell College, Iowa, believes atlatls were social equalisers. An unassisted spear is a man's weapon. It requires strength and body mass to be effective, but with these attributes it is reasonably easy to hurl the projectile in the right direction. Using an atlatl, however, takes real skill, since the spear must be kept in the correct orientation until the moment of release. This, according to Dr Whittaker, means that dextrous women and children can wield a spear as well as muscular men.

Spears, of course, are dual-use technology. They can be employed for hunting (and have been, into historical times, taking game as varied as bison, kangaroos, whales and walruses). But they can also be used in war. In this context, the fact that women can wield them may be crucial. Warfare, particularly in hunter-gatherer societies, is often a hunt with women as the prize. Women who could hurl missiles would thus be at a significant advantage.

If that theory is correct, the atlatl wives of Fire Valley are no string-along appendages of their husbands. Instead, they are communing with their sisters of long ago in what would have been one of the first great assertions of feminism.

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Babylon

Ere Babylon was dust

Apr 10th 2008
From The Economist print edition

Olaf M. Tessmer / SMB-Vorderasiatisches

A fascinating exhibition exploring the history, legends and art of Babylon is now in Paris and will be moving on to Berlin and London

THE city has been all things to all men. To Jews, whose ancestors had been taken in captivity from Jerusalem in 586BC by King Nebuchadnezzar II, the rivers of Babylon were where they sat down and wept. Genesis claims that these Jews went on to build the Tower of Babel, although there is no physical evidence of its existence (or of the Hanging Gardens, one of the seven wonders of the ancient world). Reformation Christians depicted Babylon as a whore, dedicated to orgies and feasting; Martin Luther compared the Rome of his day with ancient Babylon.

Archaeologists tell a different story. They show that Babylon was a centre of innovation, regarding itself as “the cosmic city”, with a history stretching back to the third millennium BC and lasting until the death of Alexander the Great in Babylon in 323BC. It was a great innovator in medicine, astronomy, astrology, mathematics and banking; the Babylonians may even have believed that the world was round.

Because information was stored on durable clay tablets, baked hard in the sun, these accomplishments are no secret. Appreciating them fully, however, usually means travelling to the Louvre in Paris, the Pergamon Museum in Berlin and the British Museum in London, the three places where the major discoveries from Babylonian civilisation are housed. For a while, this is no longer necessary. A formidable exhibition designed to reconcile Babylonian history and legend is on show in Paris until June 2nd. It moves to Berlin from June 26th to October 5th and will then be in London from November 13th until March 15th 2009. The organisers claim there has never been an exhibition like it. Judged by the crowds filling the galleries at the Louvre, it is already a popular success.

The three exhibitions are not uniformly the same. Berlin will have the most exhibits (about 800) and London the fewest (104); Paris has 466. The British Museum does not currently have space for a big travelling show (it had to seek special permission from English Heritage to use the old Reading Room for the recent exhibition from China). Irving Finkel, assistant keeper in the museum's Near East Department, says the London show is designed to convince the audience that Babylon was a real place, a “most lavish and grandiose affair”.

Some objects are too fragile to be moved between the museums. The tall basalt column on which is written the Code of Hammurabi, will not only stay in Paris but Béatrice André-Salvini, the exhibition's chief curator, even had qualms about moving it from its permanent place in the Louvre to the exhibition space a stone's throw away. She was persuaded otherwise, and the code is perhaps the most remarkable

object on show. Written between 1792BC and 1750BC, it lays down a detailed legal framework, some of which remains familiar: “If a man destroys the eye of another man, they shall destroy his eye.” It also dictates the rate of interest: “If a merchant puts out money on interest, for one shekel of silver he shall receive one-sixth of a shekel.”

Both London and Paris will have the pleasure of seeing the lions, cows and dragons (including the dragon shown above) that decorated the Ishtar Gate during Nebuchadnezzar II's reign (605-562BC). The blue enamel gate, which was discovered by Robert Koldewey, a renowned German archaeologist, is the only Babylonian monument from this time to have survived, albeit in thousands of small pieces. The elegant animal statues were painstakingly pieced together in Berlin and placed in the reconstructed gate. The animals travel; the great gate stays in Germany.

Some of the 130,000 tablets that were obtained by the British Museum in the 1870s have not yet been translated, and surprising discoveries are still being made, linking Babylonian and biblical texts. For instance, a tablet from the museum, translated so recently that it only just made the show, names Sarsachim, a Babylonian eunuch who is also listed in the Book of Jeremiah as one of Nebuchadnezzar's henchmen at the siege of Jerusalem.

No tablet has yet proved the existence of the Tower of Babel or the Hanging Gardens, although Mr Finkel has a complete inventory of Babylonian flora. Sébastien Allard, the exhibition's curator for paintings and prints, suggests that artists have used the imagery of Babylonian myth to convey the realities of their own period. Albrecht Dürer drew the whore of Babylon; Bruegel the Elder painted the Tower. Voltaire, Rossini, Byron, Verdi, J.M.W. Turner, Delacroix, Doré and Degas sought inspiration from the “cosmic city”. William Blake mocked the British monarchy with his illustration of Nebuchadnezzar eating grass from a story in the Book of Daniel.

The Paris exhibition ends in 1957 with a fine drawing by Frank Lloyd Wright of a monument to the legendary caliph Haroun al-Rashid. At the prompting of its director, Neil MacGregor, the British Museum will bring the story of Babylon up to date. Its exhibit will show how Saddam Hussein exploited the symbolism of Babylon by ordering the reconstruction of the King's Palace with bricks stamped with his name, just as Nebuchadnezzar stamped the originals. The last chapter will be of the remains of Babylon as an American and Polish transport hub during the Iraq war. “We won't wallow in it, but we want to create a rueful sadness,” says Mr Finkel.

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Criminals and politicians

Who uses whom?

Apr 10th 2008
From The Economist print edition

ONE of the catchier book titles of the 1990s was “Jihad vs. McWorld”. The author, Benjamin Barber, was seeking to convey his idea that a contest for the future of humanity was raging between a homogenised, rule-based world and (among other sorts of anti-liberal tribalism) militant Islam. “McMafia” implies an equally broad proposition: that global networks, or perhaps one big network, of criminality have emerged, linking the organised gangsters of, say, Colombia with those of South Africa, Kazakhstan or Indochina.

If criminal networks had really fused to the point of forming a single franchise, it would hardly have been worthwhile for Misha Glenny to spend three years travelling to criminal scenes all over the world. Fortunately, this is not the case. With the skills of a veteran reporter, who is also an artful communicator with all manner of good and bad people, he takes the reader from smuggling routes in the Adriatic to brothels in Israel; from terrified South African women who act as “mules” for drug dealers to the criminal undersides of the Indian stock exchange and film industry.

McMafia: A Journey Through the Global Criminal Underworld
By Misha Glenny

Knopf; 384 pages; $27.95.
Bodley Head; £20

Buy it at
Amazon.com
Amazon.co.uk

For anybody who dreads the emergence of an undifferentiated world, the sights, sounds and smells of the criminal underworld are still refreshingly varied. But just as the legal movement of people and goods creates all kind of unlikely links, criminals are now connected in all sorts of new ways. Sudden political change—from the collapse of communism to the downfall of apartheid's grim certainties—creates vacuums and fluidities that deft and desperate characters can exploit.

Mr Glenny is gripping on the interplay between state power and criminality. In the Balkans—his professional stomping-ground for some two decades—warlords and nationalist politicians used the rhetoric of ancient hatred as a smokescreen for larceny on a gigantic scale. In the biggest irony of all, the criminal elites of the Balkans cheerfully did business with one another, exploiting sanctions, even as they urged their humble supporters to kill each other. He also shows how the Western powers who intervened in the Balkans found themselves drawn into ugly tradeoffs. So long as Montenegro (with its economy based on cigarette smuggling and stolen cars) was an ally in the fight against Slobodan Milosevic, they left its criminal networks more or less untouched.

In the Balkans, Mr Glenny argues, state power in several countries was virtually subordinated to criminal power. But sometimes, he maintains, things work the other way round. For example, urban terrorism in India reflected a war between the Indian and Pakistani security services in which both sides used criminal networks as proxies. Perhaps the real story is even more complex: there are situations where the fusion between the security forces and the criminal world is so deep as to render almost meaningless the question of who is using whom. That is especially true of states which are fighting terrorist movements or insurgencies: it is very hard to fight a dirty enemy by clean methods.

The connection between state power and criminality is particularly elusive in Russia. One narrative (to which Mr Glenny gives too much credence) claims that Russia has happily emerged from a disastrous form of anarchy in which lawless tycoons simply bought the country, including the skills of its cleverest spooks. Now, the story goes, a degree of state order has been established, to the chagrin of the oligarchs who got their just desserts. That view is wrong on two counts: it exaggerates the disappearance of the security forces during the Yeltsin years, and it understates the continuing, law-scoffing power of many oligarchs, albeit aligned with state power rather than semi-independent.

In reality, the terms of any compact between the state and the underworld are perpetually shifting backward and forward. No state has as much power as its laws and institutions claim, and the organs of almost every state, especially in times of rapid change, dislocation or war, can find themselves searching rather desperately for partnerships of the murkier kind. The criminals, by contrast, are much more

flexible: they can lend their services to Western governments (McWorld), to their enemies (Jihad) or to anybody in between.

McMafia: A Journey Through the Global Criminal Underworld.
By Misha Glenny.
Knopf; 384 pages; $27.95. Bodley Head; £20

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The bin Laden family

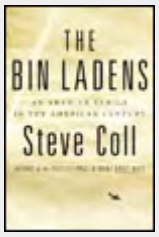
Between Allah and America

Apr 10th 2008
From The Economist print edition

A YOUNG migrant worker with a glass eye makes the hazardous journey, much of it on foot, from a mountain village in southern Yemen to the Red Sea port of Jeddah. Muhammad then starts a construction business, making himself indispensable to one Saudi king after another, transforming the family firm into "the kingdom's Halliburton". Along the way, with some 22 wives he sires 54 children, before dying in a plane crash in 1967.

Even if the attacks of September 11th 2001 had never happened and Osama bin Laden had never existed, the bin Laden saga would make quite a story. As it is, Steve Coll is able to add terrorism and geopolitics to the more familiar ingredients (wealth, power, sex, intrigue) of this all-Arabian soap opera. Formerly a journalist with the *Washington Post*, Mr Coll won a Pulitzer prize for his previous book, "Ghost Wars" (a description of the birth of al-Qaeda in the 1980s Afghan war). This new work, the product of equally prodigious research, is a rich and fluent portrait of a family and a country and of their deeply conflicted relationship with America.

The Bin Ladens: An Arabian Family in the American Century
By Steve Coll



Penguin Press; 671 pages; $35. Allen Lane; £25

Buy it at
Amazon.com
Amazon.co.uk

The first half of the story is dominated by the tough patriarch, and Salem, the son who takes over the family enterprises after his death. Salem collects planes and girlfriends and insists on singing (dreadfully) at dinners and wedding parties. He dreams of marrying four Western women at once, in a kind of marital UN, and is dismayed when the chosen four, invited to his English manor, turn him down.

The follies of the nouveaux riches are fun but eventually pall. After three or four hundred pages, the details of the latest shopping spree, protracted divorce or convoluted financial deal become numbing. But Mr Coll's inquiries have a serious purpose: to find out what light the family saga sheds on the radicalisation of its most infamous son. Osama bin Laden's relationship with his family was, from early on, ambivalent. Muhammad had married his Syrian mother when she was 15 and divorced her two or three years later. When he died, a distant but inspirational figure, Osama was only nine. Mr Coll suggests that, isolated among half-brothers, he always had a need to prove himself.

Mr Coll detects the family's influence in Osama bin Laden's fascination with technical challenges, with the gadgets of modernity (satellite phones, the internet) and with the destructive power of aircraft—all of which came together, eerily, in the September 11th conspiracy. Indeed plane crashes (like his father, Salem died in one in 1988) provide a constant motif running through the story.

On the whole Mr Coll manages his sprawling canvas well. (He mangles a few Arabic words and to describe al-Qaeda's attacks inside Saudi Arabia since 2003 as "little more than a nuisance" is just flat wrong.) The book's strength is in capturing the contradictions within a country torn between religion and modernity, and within "the troubled, greed-inflected, secret-burdened, and, ultimately—to both sides—unconvincing alliance between the United States and Saudi Arabia." Remarkably, that partnership has survived. But as the al-Qaeda leader must surely have intended, the shock of September 2001 has left it wounded, febrile and ill-tempered.

The Bin Ladens: An Arabian Family in the American Century.
By Steve Coll.
Penguin Press; 671 pages; $35. Allen Lane; £25

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Israeli fiction

The good soldier

Apr 10th 2008
From The Economist print edition

THERE is a myth that once upon a time no Israelis had moral qualms. Only after years of occupying the Palestinians, and after the series of books by revisionist Israeli historians that began appearing in the late 1980s, did Jewish Israelis start opening their eyes to the destruction that they themselves visited on another people in their attempt to create a refuge from the vast evil done to them. It is astonishing, therefore, to read the novella “Khirbet Khizeh”, just issued in English by Ibis Editions, a tiny non-profit house in Jerusalem dedicated to the translation of obscure gems.

First published in 1949, a year after the declaration of independence and 57 years before the publication of “The Ethnic Cleansing of Palestine” by Ilan Pappé, perhaps the most controversial of Israel's historians, “Khirbet Khizeh” describes in detail one such act of ethnic cleansing. It is based on the experiences of its author, S. Yizhar (pen-name of Yizhar Smilansky), who was an intelligence officer in the newborn state's army. Blowing a further hole in the myth is the news, learnt from the helpful afterword by David Shulman, a peace activist, that the book has long been an optional text in the official Israeli school curriculum.

In the story, a squad is detailed to clear a Palestinian village that has remained on the Israeli side of the 1949 ceasefire line and pack its residents off in trucks with only the clothes on their backs (Benny Morris, an Israeli historian, has calculated that of 369 Palestinian towns and villages in what became Israel, at least 41 were forcibly evacuated, and in at least 228 the residents fled under attack by Zionist forces). When the narrator, his mind ringing with thoughts of how Jews were exiled by their persecutors, blurts out a protest, one of his comrades retorts: “Are we killing them? We're taking them to their side. Let them sit there and wait. It's very decent of us. There's no other place in the world where they'd have been treated as well as this.”

That quotation sums up why, despite being a school text, and despite the historians' efforts, “Khirbet Khizeh” is not central to the national consciousness. The whatever-we-did-we-suffered-worse rationale has allowed most Jewish Israelis to draw a veil over the sins of the state's early years, even as their misgivings about the post-1967 occupation of the West Bank and Gaza have grown.

To those misgivings, however, they have recently added doubts over their capacity to defeat their enemies. This insecure Israel is the one on display in Ron Leshem's “Beaufort”. As told by a young officer left in charge of an outpost in the last months of Israel's 18-year occupation of south Lebanon, which ended in 2000, it skilfully sketches the alternating terror and tedium of war as well as the soldiers' sense of being pawns in a game long since lost. It and the film made from it (which was shortlisted for an Oscar this year) struck a deep chord with Israelis reeling from the fiasco of their second war against Lebanon's Hizbullah militia in 2006.

While it may be too much to extrapolate the evolution of a national mood from two localised snapshots, both books are fascinating windows into the feelings and consciousness of front-line Israeli soldiers in their respective epochs—albeit in quite distinct styles. Mr Leshem's “Beaufort” is a harsh stream of consciousness, flecked with telling asides on military slang and habits. Yizhar, on the other hand, whom Mr Shulman calls “the greatest poet of the Palestinian landscape in modern Hebrew”, uses a lyrical prose (dripping, says Mr Shulman, with sadly untranslatable biblical references) to paint that landscape as a bucolic backdrop to the narrator's gradual progress from laconic detachment to horrified awareness.

Khirbet Khizeh

By S. Yizhar. Translated by Nicholas de Lange and Yaacob Dweck

Ibis Editions; 134 pages; $16.95

Buy it at
Amazon.com
Amazon.co.uk

Beaufort

By Ron Leshem. Translated by Evan Fallenberg

Delacorte Press; 368 pages; $24. Harvill Secker; £12.99

Buy it at
Amazon.com
Amazon.co.uk

The pages of “Beaufort” trace a similar evolution. But while Yizhar's dawning horror is at what he and his fellows are doing to another people, Mr Leshem's is at what Israel is doing to itself. Appropriately, Israel's eternal Other, the Arabs, are different too: in 1949, helpless, pathetic and incomprehensible victims; in 2000, a sophisticated and threatening but equally incomprehensible nemesis.

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The second world war in Italy

Caught in the middle

Apr 10th 2008
From The Economist print edition

TWENTY months separate the landings at Salerno in September 1943 and the surrender of German forces in Italy a few days before VE Day. Progress was painfully slow. Geography favoured the defence. The Allied armies, made up eventually of contingents from no fewer than 17 countries, were depleted by the removal of experienced units for the landings in France and never enjoyed numerical superiority over a German army capably led by Field-Marshal Kesselring. Against well-trained troops, the massive Allied air superiority was rarely decisive.

The Americans' mistrust of Winston Churchill's Mediterranean strategy was part of the problem. They wanted to take the shortest route to Berlin. But since an invasion of France was not feasible before mid-1944, there were strong arguments for an assault on Italy. It was the only area where the Allied armies, which had defeated the Germans and Italians in north Africa in the spring of 1943, could realistically engage them on land that year. A successful invasion would knock Italy out of the war and require Hitler both to reinforce his army in the peninsula and to replace half a million Italian troops in the Balkans. The Americans were in the end convinced but they never saw Italy as a priority.

Italy's Sorrow: A Year of War, 1944-1945
By James Holland

St Martin's Press; 656 pages; $39.95. HarperPress; £25

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James Holland, a historian of the second world war, provides a thorough and impartial overview, drawing on many eye-witness accounts. They provide insights into aspects of the war that are not well known outside Italy though occasionally at the expense of the narrative flow.

He who holds Rome

But his chosen focus on the last year of the war means that he does not deal in detail with what is surely the key event in this tragic period in Italian history: the bungled arrangements for an armistice in September 1943. Mr Holland quotes Churchill as remarking to Franklin Roosevelt that “he who holds Rome holds the title deeds of Italy” but, thanks to this bungling, it was the Germans who held the city and they did so until June 5th 1944 when publicity-hungry General Mark Clark stole a march on the British 8th Army and drove in proclaiming this was a great day for the American 5th Army, which he commanded.

The slow progress of the war brought great hardships to the Italian people, particularly those caught near the front-line. So did the brutal German retaliation for the activities of the partisans. Hundreds of thousands of Italians were sent to do forced labour in Germany despite Mussolini's protests. Mr Holland's account of the failure of the Allied Military Government to do much about the starvation and social breakdown in the liberated areas is an uncomfortable echo of today's Iraq.

He does not skate over the conduct of Allied troops who apparently looted more freely than the Germans, or the appalling record of French Moroccan troops, who raped their way through the mountains south of Rome without being held to account then or later. Meanwhile in the areas still occupied by the Germans, there was civil war between the partisans and the diehard Fascists of the Republic of Salo, led by an increasingly irrelevant Mussolini. It was not the war in Russia but it was a cruel affair.

Italy's Sorrow: A Year of War, 1944-1945.
By James Holland.
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America's performing arts

Made in Europe

Apr 10th 2008
From The Economist print edition

AGED nine, a Russian-Georgian boy called Georgi Balanchivadze moved in 1913 from rural Finland to St Petersburg to enrol as a ballet student in the Imperial Theatre School. Some 11 years later, he travelled to East Prussia with the Soviet State Dancers; refusing an order to return home, he defected and fled to Paris, where another Russian exile, Sergei Diaghilev, hired him as a choreographer for the Ballets Russes. After a brief stint in London, George Balanchine (as he was by then) moved to America in 1933, where he founded American ballet, and became perhaps the most inventive choreographer of the 20th century. He called America "land of the lovely bodies" and he started an athletic, limber style of dance that celebrated those bodies, explicitly rejecting the mannered, regal European tradition.

Six years after Balanchine came to America, the exclusive Curtis Institute, a music academy in Philadelphia, extended an invitation to teach to Rudolf Serkin, an Austrian-trained pianist. In his youth he had advised his sister to restrict her listening to "real music—nothing modern! Bach, Mozart, Beethoven, Schubert." Every recital he played at Carnegie Hall during his 50 years there included something by Beethoven; in his entire performing career he played only two pieces written by Americans. He saw himself as standard-bearer for the pre-war Teutonic civilisation ruined by the Nazis, and he brought this civilisation to America as an enlightening service, something to benefit the natives.

These two poles of experience—roughly speaking, Russian acclimatisation and Germanic colonisation—anchor Joseph Horowitz's masterful study of how the Russian revolution, the rise of European fascism and the second world war all transformed the American performing arts by sending an unprecedented wave of immigrants and refugees from Eastern Europe. Between those poles lay a variety of experience, from the reinvented success of Marlene Dietrich to the pioneering loneliness of Edgard Varèse, a French-Italian Russophile who was one of the first composers to mine non-Western traditions.

These immigrants came to a country with barely a single ballet company, a few young orchestras, a dramatic tradition of instructive melodrama, a film industry whose greatest director was a nativist bigot (D.W. Griffith) and whose greatest star (Mary Pickford) exuded wholesome blandness. Its most renowned writers and painters (such as Henry James and John Singer Sargent) emulated Europeans and sought their approval. The immigrants Mr Horowitz profiles did not simply fit in to American culture; they created it, giving a young country cultural self-confidence to match its growing political strength.

Mr Horowitz tells his story through brief biographies. This lets him showcase his excellent analytical skills, particularly when it comes to music: his discussion of Erich Korngold, a composing prodigy who grew rich and famous writing rather saccharine film scores, is especially insightful. He also has a taste for the endearing, if a bit gossipy, personal anecdote: Arnold Schoenberg watched "The Lone Ranger" and "Hopalong Cassidy"; Arturo Toscanini enjoyed New Orleans jazz and televised boxing.

As a coda, Mr Horowitz compares the experiences of Thomas Mann and Vladimir Nabokov in the United States. The former fled the Nazis, settled in Los Angeles and became America's "good German": he allegorised Franklin Roosevelt and the New Deal in "Joseph the Provider". Yet the cold war and McCarthyism disillusioned him, and he rejected the "artificial paradise" of California for Switzerland.

Nabokov also left America for Switzerland, but while Mann's subject remained Germany, Nabokov's American masterpiece, "Lolita", is a love-letter to the country in all its plastic kitsch. "I am as American as April in Arizona," Nabokov wrote in 1966. It's a beautiful sentence. That it does not really mean anything, makes it no less beautiful or American.

Artists in Exile: How Refugees from Twentieth-Century War and Revolution Transformed the American Performing Arts.

By Joseph Horowitz.
Harper Collins; 480 pages; $27.50

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Charlton Heston

Apr 10th 2008
From The Economist print edition

Scope Features

Charlton Heston, America's prophet, died on April 5th, aged 84

SOME said it was the nose: high, majestic, aquiline, magnificently broken in a high-school football game. Some said it was the jaw, rugged as Mount Rushmore and packed almost too full of white, clenched teeth. Or the eyes, blue and far-seeing, as if they measured out panoramas of Western mountain and desert. The body matched: tall, muscled, buffed, bronzed. In Charlton Heston, a whole American landscape seemed to have heaved itself into human shape, stretched out its arm, and received from God the tablets of the Law:

> A well regulated Militia, being necessary to the security of a free State, the right of the people to keep and bear Arms, shall not be infringed.

The National Rifle Association was never so lucky as when it elected as its president, in 1998, a man who, barefoot on the real Mount Sinai, had led his people out of bondage; or who, up to his waist in the freezing Colorado river, had baptised Jesus Christ; or who, at the end of “The Planet of the Apes”, had rolled in the surf bewailing the sight of the Statue of Liberty shipwrecked in the sand. Moses, John the Baptist and the Last Man Alive were all rolled up in one, together with El Cid propped dead on his horse, Gordon falling at Khartoum and Michelangelo, flat on his back, painting the Sistine Chapel. All these towering figures had, in the scope and restlessness of their ambition, something American about them. In a cable network series of 1992, Mr Heston even played the voice of God; and God, he believed, had plans for His country, once the right side had triumphed in the culture wars.

Long before the NRA, however, it was Cecil B. DeMille who had the luck to chance on Mr Heston, and vice versa. There was never so good a face, especially in a black fedora, to play the circus-manager in “The Greatest Show on Earth” in 1952. And there was no other director, Mr Heston thought, who could so definitively have rescued him from his round of TV dramas and failed Broadway shows, of cold-water tenements and tinned-macaroni suppers, in post-war New York. DeMille offered glorious wide-frame spectacle, and Mr Heston was exactly the type for it. In drawing-room comedies he was clumsy as a giant; but put him in the desert in “The Ten Commandments”, staff in hand, and 8,000 extras would part for him like the waves of the Red Sea itself.

This would have gone to most actors' heads. Occasionally it went to Mr Heston's. The first chapter of his autobiography, “In the Arena”, opens with “In the beginning...the earth was without form, and void.” But for all his apparent command before that “mysterious black beast”, the camera, he was shy. Health, energy and good parts were the key to his success, he thought; not talent. He had always pretended to be people who were better than himself, starting in childhood with Tom Sawyer and Davy Crockett. Hollywood fed that compulsion. Painstakingly he taught himself chariot-racing, sketching (for Michelangelo) and long tracts of the Old Testament. He never learned to dance, as Ava Gardner found out the hard way in “55 Days at Peking”.

To the Promised Land

A generation knew him as Judah Ben-Hur, whipping four white horses into a frenzy round a Roman arena. But his tunic-and-loincloth roles, though they made his name (and won him an Oscar for “Ben-Hur” in 1960), sometimes annoyed him. He preferred to be explicitly American: wearing buckskins, making Westerns, handling a six-gun, or playing President Andrew Jackson, that “giant figure in American memory”. He delighted in his childhood in the north woods of Michigan, when, “seriously overgunned”, he had hunted rabbits, fished through ice and, like Lincoln and Reagan, chopped logs. There in a one-room schoolhouse he had learned his lessons, in the days before the destruction of the public-school system.

His politics were not always so right-wing. He was active in the civil-rights movement, and a paid-up Democrat until the Robert Bork debacle of 1987. But there was something inevitable about his rightward slide. It was not just the rise of Reagan, his friend from the Screen Actors Guild, or the growing blight of political correctness, which he called “tyranny with manners”. It went deeper than that.

Mr Heston's favourite of his film characters was no genius or prophet, but the taciturn, determined cowboy in “Will Penny” (1968). His favourite scene was where Penny, carrying a dead cowboy, rode through the rain to apply for the dead man's job, only to be mocked. Mr Heston saw this as the plight of every white, rural, Protestant, god-fearing, gun-owning male in America. Their voices, too, went unheard. But they would knock the water from their hats and carry on.

He knew where that “blood-call” would take them. He had been there himself for “The Big Country” in 1958. On some mountain-top, as the sun rose, they would look west into a shining place where freedom and greatness still invited them: “where you could pray without feeling naive, love without being kinky, sing without profanity, be white without feeling guilty”. To that mythical America, the Promised Land, he would stretch out his bronzed arm and lead his kind.

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Overview

Apr 10th 2008
From The Economist print edition

The news from **America's job market** all but confirmed that the economy had tipped into recession. Employers, excluding farms, cut 80,000 workers from their payrolls in March, the third consecutive monthly decline and the largest drop for five years. Private-sector employment fell for the fourth month running, by 98,000. The unemployment rate rose from 4.8% to 5.1%.

America's housing market also remains fragile. Existing-home sales that have been agreed on, but not yet finalised, fell by 1.9% in February.

Britain's housing market looks wobbly too. House prices fell by 2.5% in March, according to Halifax, a big mortgage lender. This was the largest monthly drop since September 1992, when the market was in a prolonged downturn. The fall in March left prices just 1.1% higher than a year earlier.

Industrial output in **Britain** rose by 0.3% in February, to be 1.3% higher than a year earlier. Industrial production in **Germany** rose by 0.4% in February, the third monthly increase in a row, leaving it 5.9% higher than a year earlier. **Spain's** industrial production rose by 1.8% in the year to February.

In **Switzerland**, consumer-price inflation rose from 2.4% in February to 2.6% in March, the highest rate since October 1993. Inflation has been above the central bank's 2% price-stability threshold since December.

Canada's unemployment rate rose to 6% in March, from 5.8% in February.

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Output, prices and jobs

Apr 10th 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+2.5 Q4	+0.6	+1.2	+1.7	+1.0 Feb	+4.0 Feb	+2.4	+3.3	5.1 Mar
Japan	+2.0 Q4	+3.5	+1.3	+1.5	+4.2 Feb	+1.0 Feb	–0.2	+0.7	3.9 Feb
China	+11.2 Q4	na	+9.6	+9.0	+15.4 Feb	+8.7 Feb	+2.7	+5.0	9.5 2007
Britain	+2.8 Q4	+2.5	+1.8	+1.8	+1.3 Feb	+2.5 Feb§	+2.8	+2.6	5.2 Jan††
Canada	+2.9 Q4	+0.8	+1.5	+2.1	–1.3 Dec	+1.8 Feb	+2.0	+1.7	6.0 Mar
Euro area	+2.2 Q4	+1.6	+1.6	+1.6	+3.8 Jan	+3.5 Mar	+1.9	+2.7	7.1 Feb
Austria	+3.0 Q4	+2.3	+2.6	+2.3	+7.9 Jan	+3.2 Feb	+1.6	+2.2	4.1 Feb
Belgium	+2.4 Q4	+2.0	+1.8	+1.8	–1.9 Dec	+4.4 Mar	+1.8	+2.6	10.7 Feb‡‡
France	+2.1 Q4	+1.5	+1.6	+1.6	+1.9 Feb	+2.8 Feb	+1.0	+2.4	7.5 Q4§§
Germany	+1.8 Q4	+1.1	+1.7	+1.7	+5.9 Feb	+3.1 Mar	+2.0	+2.3	7.8 Mar
Greece	+3.6 Q4	+2.8	+2.8	+3.3	–4.2 Feb	+4.4 Mar	+2.6	+3.9	8.9 Dec
Italy	+1.9 Q3	+1.7	+0.8	+1.1	–0.8 Feb	+3.3 Mar	+1.7	+2.6	6.0 Q4
Netherlands	+4.5 Q4	+4.8	+2.5	+1.9	+2.0 Jan	+2.2 Mar	+1.8	+2.0	4.1 Feb††
Spain	+3.5 Q4	+3.2	+2.4	+2.1	+3.9 Feb	+4.4 Feb	+2.4	+3.6	9.0 Feb
Czech Republic	+6.6 Q4	+7.0	+4.7	+5.4	+9.3 Jan	+7.1 Mar	+1.9	+6.5	5.9 Feb
Denmark	+1.9 Q4	+1.2	+1.5	+1.6	+1.9 Feb	+3.1 Mar	+2.0	+2.4	2.0 Feb
Hungary	+0.7 Q4	+0.8	+2.4	+3.6	+9.8 Feb	+6.9 Feb	+8.8	+5.9	8.0 Feb††
Norway	+4.7 Q4	+5.2	+2.9	+2.6	+0.3 Feb	+3.2 Mar	+1.1	+3.1	2.3 Jan††
Poland	+6.1 Q4	na	+5.1	+4.3	+14.9 Feb	+4.2 Feb	+1.9	+4.0	11.1 Mar‡‡
Russia	+7.7 Q3	na	+7.1	+6.2	+7.5 Feb	+12.7 Feb	+7.6	+12.5	6.6 Feb‡‡
Sweden	+2.8 Q4	+3.1	+2.4	+2.3	+1.9 Feb	+3.1 Feb	+2.0	+2.8	6.1 Feb‡‡
Switzerland	+3.6 Q4	+4.2	+2.1	+1.7	+9.1 Q4	+2.6 Mar	+0.2	+1.8	2.5 Mar
Turkey	+3.4 Q4	na	+3.7	+5.4	+7.5 Feb	+9.2 Mar	+10.9	+8.4	10.1 Q4‡‡
Australia	+3.9 Q4	+2.4	+3.0	+3.0	+1.6 Q3	+3.0 Q4	+3.3	+3.3	4.1 Mar
Hong Kong	+6.7 Q4	+6.6	+4.0	+4.6	–0.3 Q4	+6.3 Feb	+0.8	+4.0	3.3 Feb††
India	+8.4 Q4	na	+7.8	+7.2	+5.3 Jan	+5.5 Feb	+7.6	+5.8	7.2 2007
Indonesia	+6.3 Q4	na	+5.9	+6.3	+5.0 Jan	+8.2 Mar	+6.5	+6.8	9.8 Feb
Malaysia	+7.3 Q4	na	+5.8	+5.9	+7.0 Jan	+2.7 Feb	+3.1	+2.8	3.0 Q4
Pakistan	+7.0 2007**	na	+5.0	+5.3	–4.1 Dec	+11.3 Feb	+7.4	+9.3	6.2 2006
Singapore	+5.4 Q4	–4.8	+4.4	+4.7	+10.0 Feb	+6.5 Feb	+0.6	+3.3	1.6 Q4
South Korea	+5.5 Q4	+6.3	+4.5	+4.4	+10.1 Feb	+3.9 Mar	+2.2	+2.9	3.0 Feb
Taiwan	+6.4 Q4	na	+4.3	+4.4	+15.2 Feb	+4.0 Mar	+0.9	+2.4	4.0 Feb
Thailand	+5.7 Q4	+7.3	+4.8	+4.3	+14.7 Feb	+5.3 Mar	+2.0	+3.9	0.8 Dec
Argentina	+9.1 Q4	+8.0	+5.7	+4.5	+9.3 Feb	+8.4 Feb	+9.6	+10.9	7.5 Q4‡‡
Brazil	+6.2 Q4	+6.4	+4.3	+4.1	+9.7 Feb	+4.7 Mar	+3.0	+4.7	8.7 Feb‡‡
Chile	+4.0 Q4	+3.7	+4.0	+4.6	+5.7 Feb	+8.5 Mar	+2.6	+5.9	7.3 Feb††††
Colombia	+8.1 Q4	+6.8	+5.0	+4.3	+5.7 Jan	+5.9 Mar	+5.8	+5.7	13.1 Jan‡‡
Mexico	+3.8 Q4	+3.0	+1.9	+2.8	+3.1 Jan	+4.3 Mar	+4.2	+3.9	3.8 Feb‡‡
Venezuela	+8.5 Q4	na	+6.0	+4.5	–2.5 Dec	+25.2 Feb	+20.4	+28.2	6.7 Q4‡‡
Egypt	+8.1 Q4	na	+7.1	+6.8	+7.5 2007**	+12.1 Feb	+12.6	+10.6	9.0 Q4‡‡
Israel	+6.8 Q4	+6.4	+3.5	+4.1	+5.3 Jan	+3.6 Feb	–0.8	+2.9	6.8 Q4
Saudi Arabia	+3.5 2007	na	+6.0	+5.6	na	+8.7 Feb	+3.0	+8.5	na
South Africa	+4.6 Q4	+5.3	+4.1	+4.8	+3.5 Feb	+9.8 Feb	+5.7	+7.0	23.0 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+4.8 Q4	+3.2	+4.0	+4.3	+2.6 Feb	+10.9 Mar	+5.7	+9.0	5.6 Jan
Finland	+3.7 Q4	+3.8	+3.0	+3.0	+4.4 Feb	+3.7 Feb	+2.2	+3.0	6.2 Feb
Iceland	+4.6 Q4	+1.2	+1.8	+2.5	+0.4 2007	+8.7 Mar	+5.9	+6.5	1.0 Feb‡‡
Ireland	+3.5 Q4	–3.3	+2.4	+2.6	+1.8 Jan	+4.8 Feb	+4.8	+3.0	5.5 Mar
Latvia	+8.0 Q4	na	+5.8	+6.0	–0.1 Jan	+16.7 Feb	+7.2	+10.5	5.0 Feb
Lithuania	+7.9 Q4	–4.3	+7.2	+6.4	na	+11.3 Mar	+4.6	+7.8	4.7 Feb‡‡
Luxembourg	+5.6 Q3	+2.8	+4.9	+4.8	+5.2 Jan	+3.1 Feb	+2.0	+3.1	4.6 Feb‡‡
New Zealand	+2.8 Q4	+3.1	+1.8	+2.6	+1.3 Q3	+3.2 Q4	+2.6	+2.9	3.4 Q4
Peru	+10.1 Jan	na	+6.9	+6.6	+10.0 Jan	+5.5 Mar	+0.2	+4.2	9.4 Jan‡‡
Philippines	+7.3 Q4	+7.4	+5.4	+5.5	+0.5 Jan	+6.4 Mar	+2.2	+4.0	7.4 Q1‡‡
Portugal	+2.0 Q4	+3.0	+1.7	+1.9	+1.0 Feb	+2.9 Feb	+2.4	+2.4	7.8 Q4‡‡
Slovakia	+14.3 Q4	na	+7.5	+5.7	+11.5 Feb	+4.0 Feb	+2.7	+3.0	7.8 Feb‡‡
Slovenia	+4.7 Q4	na	+4.6	+4.0	+1.2 Jan	+6.9 Mar	+2.3	+4.4	7.4 Jan‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.1% in Feb. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series. ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Apr 10th 2008
From The Economist print edition

The Economist commodity-price index

2000=100

	Apr 1st	Apr 8th*	% change on one month	% change on one year
Dollar index				
All items	247.9	257.0	–4.9	+34.8
Food	242.4	253.0	–6.7	+60.7
Industrials				
All	255.1	262.1	–2.4	+12.2
Nfa†	186.8	192.6	+0.5	+25.6
Metals	292.5	300.0	–3.4	+8.2
Sterling index				
All items	190.3	198.0	–3.1	+32.3
Euro index				
All items	147.0	151.3	–7.2	+13.3
Gold				
$ per oz	879.55	928.35	–4.8	+43.1
West Texas Intermediate				
$ per barrel	101.06	108.78	+0.1	+87.6

*Provisional †Non-food agriculturals.

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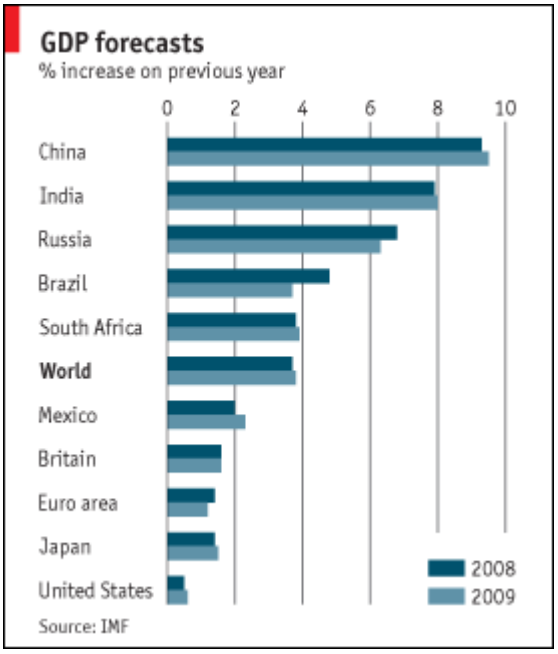
GDP forecasts

Apr 10th 2008
From The Economist print edition



In its twice-yearly *World Economic Outlook*, published on April 9th, the IMF slashed its GDP growth forecasts for many rich countries. The fund expects the world economy to grow by 3.7% this year, down from the 4.2% forecast published in January's update. The fund is much gloomier about prospects for the American economy, which it thinks will experience a mild recession this year: it cut its growth forecast for 2008 from 1.5% to just 0.5% and recovery in 2009 is expected to be sluggish. Prospects for Canada, Italy and Spain were also marked down heavily. The IMF remains optimistic about the developing world, whose economies are expected to grow by 6.7% in 2008, led by China and India.

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Trade, exchange rates, budget balances and interest rates

Apr 10th 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ Apr 9th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−819.2 Jan	−738.6 Q4	−4.7	–	–	−2.4	2.08	3.46
Japan	+105.4 Jan	+216.0 Feb	+4.7	102	119	−2.7	0.75	1.34
China	+250.0 Feb	+249.9 2006	+10.6	7.00	7.73	0.5	4.50	4.21
Britain	−177.2 Jan	−115.4 Q4	−4.2	0.51	0.51	−3.3	5.89	4.51
Canada	+44.8 Jan	+12.5 Q4	nil	1.02	1.14	0.3	2.15	3.66
Euro area	+25.5 Jan	−1.2 Jan	+0.1	0.63	0.74	−0.9	4.74	4.02
Austria	+0.9 Jan	+12.2 Q4	+2.7	0.63	0.74	−0.4	4.74	4.19
Belgium	+15.4 Jan	+2.7 Dec	+1.8	0.63	0.74	−0.5	4.81	4.35
France	−56.3 Feb	−36.9 Jan	−1.6	0.63	0.74	−2.8	4.74	4.20
Germany	+271.5 Feb	+264.1 Feb	+6.2	0.63	0.74	0.8	4.74	4.02
Greece	−57.1 Dec	−48.3 Dec	−12.5	0.63	0.74	−2.7	4.74	4.52
Italy	−14.1 Jan	−51.1 Jan	−2.5	0.63	0.74	−2.8	4.74	4.50
Netherlands	+57.2 Jan	+50.7 Q4	+7.2	0.63	0.74	0.5	4.74	4.24
Spain	−139.6 Jan	−146.0 Dec	−9.2	0.63	0.74	nil	4.74	4.33
Czech Republic	+4.6 Feb	−4.3 Jan	−3.0	15.9	20.8	−2.6	4.12	4.64
Denmark	+4.1 Feb	+4.4 Feb	+1.2	4.73	5.55	3.6	5.25	4.24
Hungary	+0.1 Feb	−6.9 Q4	−5.9	161	182	−4.1	8.27	8.50
Norway	+63.1 Feb	+64.1 Q4	+15.8	5.03	6.02	17.9	6.26	4.48
Poland	−12.2 Jan	−16.2 Jan	−4.0	2.19	2.85	−1.8	6.31	6.06
Russia	+146.3 Feb	+92.4 Q1	+5.1	23.5	25.9	2.5	10.25	6.53
Sweden	+19.1 Feb	+38.1 Q4	+6.9	5.95	6.90	2.0	4.09	4.02
Switzerland	+11.9 Feb	+71.1 Q4	+15.1	1.01	1.22	0.9	2.85	2.99
Turkey	−65.7 Feb	−38.9 Jan	−7.7	1.29	1.37	−2.9	16.74	6.51‡
Australia	−21.8 Feb	−56.4 Q4	−6.1	1.08	1.21	1.5	7.91	6.09
Hong Kong	−24.9 Feb	+27.4 Q4	+8.8	7.79	7.81	3.1	1.91	2.39
India	−75.0 Feb	−12.8 Q4	−2.4	40.0	42.9	−3.1	6.92	8.41
Indonesia	+39.2 Feb	+11.0 Q4	+2.1	9,210	9,085	−1.8	8.07	6.79‡
Malaysia	+31.0 Feb	+28.9 Q4	+13.8	3.18	3.45	−3.2	3.62	3.44‡
Pakistan	−16.9 Feb	−8.4 Q4	−7.0	63.3	60.8	−5.3	10.17	9.62‡
Singapore	+34.8 Feb	+39.1 Q4	+23.5	1.38	1.52	1.0	1.28	2.30
South Korea	+6.5 Mar	+0.9 Feb	+0.5	976	932	0.2	5.36	5.12
Taiwan	+13.5 Mar	+31.7 Q4	+5.1	30.5	33.1	−1.8	2.70	2.28
Thailand	+10.5 Feb	+14.3 Feb	+2.6	31.8	35.0	−2.8	3.25	3.97
Argentina	+12.1 Feb	+7.3 Q4	+2.5	3.16	3.09	0.9	10.50	na
Brazil	+34.1 Mar	−4.9 Feb	−0.4	1.69	2.03	−1.8	11.18	6.16‡
Chile	+22.5 Mar	+7.2 Q4	+3.8	436	533	5.4	6.48	3.89‡
Colombia	+1.2 Jan	−5.9 Q4	−4.0	1,796	2,156	−1.6	9.74	5.44‡
Mexico	−13.3 Feb	−7.4 Q4	−1.4	10.5	11.0	nil	7.46	7.49
Venezuela	+23.7 Q4	+20.0 Q4	+7.0	3.75	4.23§	nil	14.00	6.55‡
Egypt	−20.5 Q4	+0.5 Q4	+0.4	5.44	5.70	−7.0	6.75	4.88‡
Israel	−11.0 Feb	+5.0 Q4	+2.2	3.61	4.11	−1.4	2.91	5.12
Saudi Arabia	+146.6 2006	+98.9 2006	+30.8	3.75	3.75	19.1	2.28	na
South Africa	−10.3 Feb	−20.6 Q4	−8.0	7.82	7.14	0.6	11.45	8.95
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.4 Jan	−3.3 Jan	−13.1	9.92	11.6	0.6	6.35	na
Finland	+12.0 Jan	+11.6 Jan	+3.8	0.63	0.74	4.6	4.63	4.17
Iceland	−1.7 Mar	−3.2 Q4	−12.3	71.8	66.2	1.4	15.24	na
Ireland	+36.3 Jan	−12.7 Q4	−3.8	0.63	0.74	−0.5	4.74	4.41
Latvia	−7.2 Jan	−6.4 Jan	−18.2	0.44	0.52	1.0	5.54	na
Lithuania	−7.3 Feb	−5.5 Jan	−12.0	2.19	2.57	−0.6	5.08	na
Luxembourg	−6.2 Jan	+3.9 Q4	na	0.63	0.74	0.9	4.74	na
New Zealand	−3.3 Feb	−10.2 Q4	−7.5	1.26	1.37	3.0	7.30	6.48
Peru	+8.3 Jan	+1.5 Q4	+0.7	2.69	3.18	1.8	5.20	na
Philippines	−6.1 Jan	+6.4 Dec	+4.6	41.7	48.0	−0.2	6.38	na
Portugal	−26.6 Dec	−22.9 Jan	−8.8	0.63	0.74	−2.6	4.74	4.38
Slovakia	−0.9 Jan	−4.1 Dec	−2.8	20.5	24.8	−2.3	4.01	4.43
Slovenia	−3.2 Feb	−2.6 Jan	−2.8	0.63	0.74	−0.2	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Apr 10th 2008
From The Economist print edition

Markets

	Index Apr 9th	% change on one week	% change on Dec 31st 2007 in local currency	% change on Dec 31st 2007 in $ terms
United States (DJIA)	12,527.3	–0.6	–5.6	–5.6
United States (S&P 500)	1,354.5	–1.0	–7.8	–7.8
United States (NAScomp)	2,322.1	–1.7	–12.4	–12.4
Japan (Nikkei 225)	13,111.9	–0.6	–14.3	–6.8
Japan (Topix)	1,262.9	–1.5	–14.4	–6.9
China (SSEA)	3,581.8	+2.0	–35.1	–32.5
China (SSEB, $ terms)	247.9	+4.6	–34.9	–32.3
Britain (FTSE 100)	5,983.9	+1.1	–7.3	–7.8
Canada (S&P TSX)	13,750.6	+1.7	–0.6	–3.7
Euro area (FTSE Euro 100)	1,187.6	–0.6	–13.6	–7.8
Euro area (DJ STOXX 50)	3,775.9	–0.6	–14.2	–8.4
Austria (ATX)	3,950.1	+0.4	–12.5	–6.5
Belgium (Bel 20)	3,838.5	nil	–7.0	–0.7
France (CAC 40)	4,875.0	–0.8	–13.2	–7.3
Germany (DAX)*	6,721.4	–0.8	–16.7	–11.0
Greece (Athex Comp)	4,137.4	–0.6	–20.1	–14.7
Italy (S&P/MIB)	33,640.0	+1.5	–12.7	–6.8
Netherlands (AEX)	461.3	+0.9	–10.6	–4.5
Spain (Madrid SE)	1,467.7	–1.9	–10.6	–4.6
Czech Republic (PX)	1,583.3	+0.5	–12.8	–1.3
Denmark (OMXCB)	409.4	–0.3	–8.8	–2.6
Hungary (BUX)	22,239.4	+0.9	–15.2	–11.0
Norway (OSEAX)	499.1	+2.1	–12.4	–7.7
Poland (WIG)	48,557.8	nil	–12.7	–4.1
Russia (RTS, $ terms)	2,115.3	+2.2	–11.0	–7.6
Sweden (Aff.Gen)	312.9	–0.8	–8.1	–0.9
Switzerland (SMI)	7,403.1	–2.5	–12.7	–2.7
Turkey (ISE)	42,900.5	+4.7	–22.8	–29.6
Australia (All Ord.)	5,583.5	+0.7	–13.0	–9.2
Hong Kong (Hang Seng)	23,984.6	+0.5	–13.8	–13.7
India (BSE)	15,790.5	+0.3	–22.2	–23.3
Indonesia (JSX)	2,180.1	–6.9	–20.6	–19.1
Malaysia (KLSE)	1,227.7	–1.0	–15.0	–11.9
Pakistan (KSE)	15,404.2	+0.5	+9.4	+7.4
Singapore (STI)	3,089.7	–1.1	–10.8	–6.9
South Korea (KOSPI)	1,754.7	+0.7	–7.5	–11.2
Taiwan (TWI)	8,667.9	+0.7	+1.9	+8.8
Thailand (SET)	826.2	+0.1	–3.7	+3.0
Argentina (MERV)	2,149.9	+0.6	–0.1	–0.6
Brazil (BVSP)	63,476.0	+0.2	–0.6	+2.2
Chile (IGPA)	13,664.3	+1.8	–2.9	+10.8
Colombia (IGBC)	9,460.4	+2.5	–11.5	–2.3
Mexico (IPC)	31,417.8	–0.2	+6.4	+9.9
Venezuela (IBC)	40,539.8	+10.1	+7.0	–38.8
Egypt (Case 30)	11,663.3	+1.4	+11.4	+12.7
Israel (TA-100)	993.4	+1.6	–14.0	–7.1
Saudi Arabia (Tadawul)	9,501.7	+0.9	+19.8	+19.8
South Africa (JSE AS)	31,360.1	+4.8	+8.3	–5.3
Europe (FTSEurofirst 300)	1,308.9	–0.7	–13.1	–7.2
World, dev'd (MSCI)	1,476.9	–0.3	–7.0	–7.0
Emerging markets (MSCI)	1,150.4	+1.1	–7.6	–7.6
World, all (MSCI)	374.6	–0.1	–7.1	–7.1
World bonds (Citigroup)	790.5	+0.7	+8.2	+8.2
EMBI+ (JPMorgan)	440.6	+0.9	+1.6	+1.6
Hedge funds (HFRX)	1,302.5	+0.5	–2.0	–2.0
Volatility, US (VIX)	22.5	21.6	22.5	(levels)
CDSs, Eur (iTRAXX)†	96.5	–0.4	+90.7	+103.6
CDSs, N Am (CDX)†	128.2	+1.5	+46.3	+46.3
Carbon trading (EU ETS) €	23.6	+1.1	+6.3	+13.4

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

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Space competitiveness

Apr 10th 2008
From The Economist print edition

Russia may have won the initial race into space with Sputnik but half a century on, America has forged a big lead. A report by Futron, a technology consultancy, confirms America's dominance of space. On its space-competitiveness index—which comprises 40 measures, including government spending, numbers of spacecraft built, numbers of spaceports and corporate revenue from space ventures—America is light years ahead of its closest rivals in Europe. Russia, which still dominates the orbital-launch industry, is ranked third. China is an emerging space power with ambitious goals backed by heavy government investment. Its launch industry is now challenging America's. India is ranked just behind China.

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